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Politics this week

Nov 22nd 2001
From The Economist print edition

Endgame in Afghanistan?

AP

American planes kept up their attacks on the remaining **Taliban stronghold** of Kandahar, while Kunduz seemed on the brink of surrender. The Northern Alliance, King Mohammed Zahir Shah and Pakistan-based Pushtuns agreed to send representatives to a UN-brokered meeting near Bonn to discuss the structure of a transitional post-Taliban government.

See article: Distantly, the shape of peace

Twenty-one countries met in Washington to start to plan the **economic reconstruction** of Afghanistan. The UN said that rebuilding the country would cost more than $25 billion over 10 years.

President George Bush, addressing troops in Kentucky, gave warnings that the “most difficult steps” lay ahead: the breaking of al-Qaeda and the capture of Osama bin Laden. The bounty for his capture was raised to $25m.

See article: Cherchez l'homme

The safest way to travel

President George Bush signed a long-awaited **aviation-security** bill. As many as 28,000 of the people who screen air passengers and their baggage will become federal employees. The bill also calls for stronger cockpit doors on aircraft and more armed federal marshals on flights.

An elderly woman in Connecticut died from the inhalation form of **anthrax**. A letter to Senator Patrick Leahy of Vermont tested positive for the disease: so did the offices of two more senators.

See article: Curiouser and curiouser

The United States denounced Iraq, North Korea, Iran, Libya, Syria and Sudan for having, or seeking to acquire, **biological weapons**. The move accompanied proposals by the Bush administration to strengthen the 1972 Biological Weapons Convention.

See article: Where should Mr Bush put his chips now?

Rasmussen beats Rasmussen

Denmark's centre-right Liberals, led by Anders Fogh Rasmussen, won a general election, beating the centre-left Social Democrats, led by Poul Nyrup Rasmussen, the European Union's longest-serving prime minister.

See article: Anders Fogh Rasmussen

The government of **Germany's** chancellor, Gerhard Schröder**,** narrowly won a parliamentary vote of confidence tied to his promise to send troops abroad to help in the war against terrorism, but many of his

coalition's Greens, who have a party congress this weekend, continue to wobble.

See article: Still edgy

Mr Schröder's chief foreign-policy adviser, **Michael Steiner**, resigned after losing his temper with a German sergeant who is said to have failed to get him some caviare during a refuelling stopover.

An ex-Communist, Georgi Purvanov, was elected president of **Bulgaria**, against the wishes of the country's prime minister, Simeon Saxe-Coburg, its ex-king.

See article: Up to a point, King Simeon

In **Kosovo** the more moderate ethnic-Albanian nationalists led by Ibrahim Rugova, who is expected to become the province's president, won a general election.

After weeks of hesitation, **Macedonia's** parliament endorsed constitutional amendments to give the country's ethnic-Albanian minority more rights.

Middle East peace effort

Colin Powell, America's secretary of state, heralded a fresh American effort to end **Israeli-Palestinian violence**. Anthony Zinni, a former commander of American forces in the Middle East, was instructed to help negotiate a ceasefire, and to remain in the region until his mission was accomplished.

See article: When an irresistable Zinni meets an immovable Sharon

Ninety-four suspected **Islamic militants** went on trial before an Egyptian military court. All were charged with belonging to a secret organisation working against the state; the relatives of some say they were tortured to obtain confessions.

Five **Gazan children** were killed by an unexploded Israeli tank shell on their way to school.

AP

Morgan Tsvangirai, Zimbabwe's opposition leader, was cleared of treason charges, and so will run against **Robert Mugabe** in next year's presidential election. Mr Mugabe, in his campaign against white farmers, threatened to break up farms larger than 2,000 hectares (4,940 acres).

Daniel arap Moi, Kenya's president, strengthened his standing in the country by appointing Uhuru Kenyatta, son of Kenya's first president and independence hero, Joseph Kenyatta, to be a local government minister.

Syria released a handful of political prisoners, some detained since the mid-1980s, as part of a presidential amnesty. But human-rights groups estimate that some 1,300 political dissidents are still detained.

An official report into a $5 billion arms deal in **South Africa** found no evidence of widespread corruption, but identified conflicts of interest and murky goings-on.

See article: Gunning for profit

Miss Nigeria became the first black African to win the Miss World beauty contest.

Argentina muddles on

More trouble for **Argentina's** government, as it struggles to persuade investors to accept a restructuring of its debt. Domingo Cavallo, the economy minister, admitted that falling tax revenues meant fiscal targets agreed with the IMF would be missed. Meanwhile, the Supreme Court quashed charges of arms smuggling against Carlos Menem, a former president.

A group representing **Venezuela's** private sector called a one-day “strike” in protest at 49 decree-laws issued by President Hugo Chavez, which include measures to increase royalties on oil production and limit land ownership.

See article: To the barricades

In a historic chink in a trade embargo imposed in 1960, three American firms signed contracts to sell foodstuffs worth about $20m to **Cuba**.

See article: After the storm

Spiritual support

A group of 35 westerners unfurled a banner in Beijing in support of the **Falun Gong**, a spiritual movement banned in China. The demonstrators, who came from the United States and Europe, had entered China on tourist visas. All were deported.

China closed 17,500 **Internet cafés**, claiming that too many people were becoming hooked on computer games and pornographic sites. Another 28,000 Internet cafés are to be closely monitored.

AP

The **king of Malaysia**, Sultan Salahuddin, died aged 75, leaving 14 children from four marriages. His successor will be chosen from one of nine traditional rulers who take it in turns to be king.

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Business this week

Nov 22nd 2001
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The good oil

Oil-industry consolidation continues, as **Phillips Petroleum** and **Conoco** announced a $15 billion all-share merger. The new company, to be called ConocoPhillips, is likely to be the sixth-biggest producer in the world, based on revenues.

See article: Minor majors

Normandy Mining, of Australia, wooed by rival bids from America's **Newmont Mining** and South Africa's **AngloGold**, rejected AngloGold's all-share bid. This paves the way for a possible sweetened counter-offer from AngloGold, the world's second-largest gold producer.

Enron's financial turmoil worsened. But the Texan energy giant managed to put off repayment of some debts until mid-December. Enron's shares plunged to ten-year lows, casting greater doubt over its plans to be taken over in a rescue bid by smaller rival **Dynegy**.

Three **European steel makers**, Aceralia, Arbed and Usinor, patched up differences that had threatened their plans to merge, by agreeing to reduce Usinor's stake in the combined entity. The new company will be the world's biggest steel maker.

Optimism at last

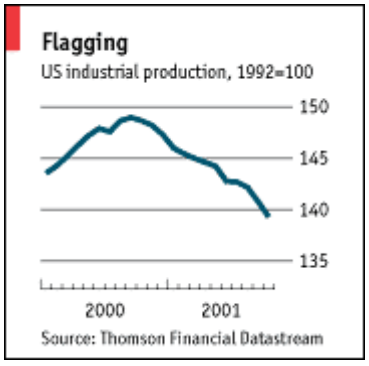
The **Dow Jones Industrial Average** has climbed by nearly 20% above its lows on September 21st, leading some optimists to announce the emergence of a new bull market. The index came within 23 points of the 10,000 mark before falling back.

See article: Messages of hope?

Brand names got a boost in Europe. The European Court of Justice handed a victory to jeans maker **Levi Strauss** when it ruled that sales of so-called “parallel imports” from outside the European Union's jurisdiction were allowed only with the consent of the trademark owner. The decision ends Levi's three-year battle with Tesco, a British supermarket chain, that sold cut-price Levi's jeans imported from the United States.

See article: Trouser suit

American **industrial production** fell for the 13th straight month, the longest continuous decline since the second world war. Other indicators were more optimistic: the Conference Board's index of leading indicators rose by 0.3% in October, raising hopes that the widely expected recession might not last long.



See article: Hey, big spender

Schmidtbank, a 170-year-old family-owned German bank, was rescued from some decidedly modern investments by a consortium of bigger peers, including Deutsche Bank, HVB Group, Commerzbank and Dresdner Bank. Schmidtbank has racked up losses from Consors, an online broker, as well as

from bad loans to Germany's *Mittelstand* companies.

French connections

Shares in **Bull**, the troubled French computer company, shot up when its chairman, Guy de Panafieu, resigned. The French government pledged *euro*100m ($88m) to the company, though the European Commission, which is strongly opposed to state subsidies, may yet raise objections to the plan.

The chief of **Barclays'** French operations was questioned by magistrates in Paris as part of an investigation into alleged money laundering between France and Israel. Other banks under scrutiny include BRED, and Société Marseillaise de Crédit, owned by HSBC.

The European Commission levied a *euro*855m ($750) fine, the largest in its history, against **Roche** and **BASF**, and six other companies, for price-fixing in the market for vitamins. Two years ago, both companies were fined by antitrust regulators in America, and a Roche executive was jailed for four months.

Percy Barnevik, the Swedish businessman who more or less created ABB, the Swiss-Swedish engineering giant, is to step down as non-executive chairman. Mr Barnevik said his departure would give the company's new management team a clear mandate of their own.

Love boats

Royal Caribbean Cruises and **P&O Princess Cruises**, respectively the world's second- and third-largest cruise lines, agreed to merge in a bid to ride out the global economic storm. The deal may frustrate the ambitions of **Carnival Cruise Lines**, the industry leader, which has made previous overtures to P&O Princess in a failed attempt to expand its European operations.

See article: Rough seas ahead

KPN, the Dutch telecoms company, said it would issue *euro*5 billion ($4.4 billion) in shares at a 50% discount to the current price, to help it reduce a massive debt load acquired to purchase third-generation mobile-phone licences.

A slump in demand has cost jobs at **Alcoa**, the world's largest aluminium producer, which announced plans to sack 6,500 workers around the world. The company is forecasting a 4.7% drop in aluminium demand this year, the worst in 20 years.

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Fighting terrorism

The elusive character of victory

Nov 22nd 2001
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Catching Osama bin Laden and defeating the Taliban will be a victory of sorts, but not a sufficient one

EPA

RIGHT from the outset, it was clear that one of the toughest tasks in the battle against the terrorists who slaughtered thousands of civilians on September 11th was going to be that of defining success. For a while, that point was obscured by another difficulty: that of achieving success of any sort in a primitive, unruly place like Afghanistan. Last week's heady days made success suddenly seem near, and even easy. The stand-off that followed, amid confusion about who would form a post-Taliban government and about Osama bin Laden's whereabouts, then punctured that euphoria. And rightly so: even if, or when, Mr bin Laden and the Taliban have been killed or captured, such achievements will still not amount to victory.

They will be important achievements nonetheless. For any organisation, the loss of the most senior leaders is a crushing blow, and all the evidence suggests that Mr bin Laden has been a vital inspirational and managerial figure for the al-Qaeda terrorist network. To find and either kill or capture him within a few months of the mass murder his terrorists perpetrated in America would be a triumph. Another notable achievement is already near completion: by toppling and punishing the ghastly Taliban regime, America has given a clear demonstration that those who act as hosts to international terrorists will pay a hefty price.

Crushed, but not crippled

The task does not, however, stop there, for two immediate reasons and one wider, longer-term one. The first and most pressing reason is that, although al-Qaeda is led by Mr bin Laden, it is unlikely simply to disappear with his demise. Its resources and many of its agents may have become constrained since September 11th, but such networks can always, in time, regroup and recover (see article). That will, of course, be doubly true if the leaders manage to slip away from Afghanistan, but it will also be true even if they don't.

To some critics of the war, that fact—the resilience of terrorist groups as long as new recruits can be found—has been enough to convince them that the war is futile. The history of Northern Ireland, Spain and others is of long campaigns against successive generations of terrorists, with periods of progress and of regress. Yet no environmentalist would argue that just because man will always alter the earth in some way, and will do so despite legal and moral pressure, all efforts to help the environment should be abandoned. So it is with terror. Efforts to detect, punish and deter terrorism remain imperative if basic freedoms and security are to be preserved. More needs to be done, beyond this, in the hope of making fewer people want to be terrorists. But that can never be relied upon, any more than crime can ever be expected to disappear.

The campaign against al-Qaeda will have to continue beyond Afghanistan and beyond Mr bin Laden. The second pressing reason why the task is incomplete, though, remains within Afghanistan's borders. It is that toppling the Taliban was certainly necessary, but it is not enough to prevent that benighted country from again becoming a hotbed of terrorism. Al-Qaeda found sanctuary there not only because the Taliban shared its religious militancy but also because in the rough, even brutal conditions of Afghanistan Mr bin Laden's possession of money, men and weapons made him an attractive ally. If the country again

descends into civil war, with no government, institutions or effective laws, the same conditions could easily return in the future. America's punishment of the Taliban will deter others, for sure. But another lesson of al-Qaeda is that it can take a long time before the outside world notices—or cares—that a terror network has been built.

This is why it is vital that America and its allies do all they can to help build some sort of government for the country (see article). They can promote stability with diplomacy and with money but also with military pressure, by sending western troops and making it clear that they are not just there on holiday. Some of those troops could usefully be Muslims (eg, Turks) but many should be western, to show determination and commitment. The balance of the tribes matters for this process, as will questions of policy and structure. But power will matter more than anything else, to convince the many, fragmented groups involved that the effort to form a government and set up new laws and institutions is to be taken seriously. It may turn out that to try to form one government for one country is impossible, and that it would be better to let the place be divided up as some sort of federation. If so, so be it. The important thing is to have peace and stability, both in the interests of the frontline allies—Pakistan, Iran, Uzbekistan, Tajikistan—and of preventing a repeat of the recent past.

Next stop, Baghdad?

There is still that wider, longer-term reason why victory cannot simply be declared when the Taliban and Mr bin Laden have been dealt with. It is rooted in something that was true before September 11th, but of which the events of that day formed a terrible confirmation. In our modern world, we are fortunate that there is one great superpower, dominant militarily and strong economically, which no other country or alliance of countries at present feels inclined to confront in war. But that very dominance has two consequences: that America is always the favourite scapegoat for perceived ills; and that hostile groups, or even a few countries, are likelier to resort to extreme methods to try to hurt or repel it. One such method was that used on September 11th. Another would be the use of nuclear, chemical or biological weapons.

The campaign, in all its forms, that began after the 11th will have to continue well beyond any immediate successes in Afghanistan, because that central fact about the threat to peace and security will continue beyond Afghanistan. The effort to deter and punish international terrorism and to contain the threat of weapons of mass destruction will have to be one of the main axes around which foreign policy revolves.

What might that mean? It will entail serious, sustained work to improve international agreements on nuclear and other proliferation, and the enforcement of them. It will make that sort of task one of the main issues determining the friendships among the great powers. It will make the question of whether a country sponsors or gives succour to terrorists the basic determinant of whether it is treated as a friend or a foe; and alongside that will stand the question of whether that country is developing weapons of mass destruction or disseminating the wherewithal to do so. Those past sponsors or proliferators who now prove their willingness to change can expect rewards. Those who do not can expect punishments.

The next question to be answered, therefore, is who is in which category. What America will need to do is to give countries a chance to choose, and to prove that they mean it. At the top of everybody's list is Iraq. Given Saddam Hussein's record in developing weapons of mass destruction, his is bound to be the face America turns to next, after Mr bin Laden and the Taliban. There will have to be a process, not a pounce: the building up of diplomatic pressure, reforming sanctions, demanding new UN inspections, the credible threat of military action if he does not comply. This will not be easy, and will not be news to him. For he knows he is on the wanted list.

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Israel and the Palestinians

Powell, the pusher and prodder

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America's secretary of state said the right things. Will they happen?

Reuters

AS A speech it was excellent. In his much-flagged address, delivered at last on November 19th, Colin Powell, America's secretary of state, evoked a moving vision of an independent, viable Palestine existing beside a secure Israel, intractable issues resolved and the two peoples freed from their bog of hatred and violence. All he failed to do was to explain convincingly how they can get from here to there.

Without American assistance, they have no chance, and even with it the chances are minimal. Israel is run by Ariel Sharon, whose life has been dedicated to enlarging the Jewish state and keeping it enlarged. The Palestinian territories are slipping out of the control of Yasser Arafat, who is dismissed by Israelis as an untrustworthy interlocutor and increasingly defied by his own embittered people. The context for serious political talks is as unpromising as it could be. Yet the alternative is to continue to squat on an almighty time bomb.

George Bush's administration is at one in wanting to defuse that bomb, but divided on how to do so, and how much to risk in the process. Full involvement in Arab-Israeli peacemaking is a treacherous business: been there, done that, Bill Clinton's successor is likely to conclude. Better perhaps, many voices in Washington argue, to concentrate on limiting the damage, trying to assuage Arab doubts by showing concern and willingness, and calming things down, at least for the moment.

In this spirit, and however far Mr Powell's own vision may stretch, America's immediate goal is to jump-start implementation of the Mitchell report, the recommendations of a commission led by George Mitchell, a former American senator. These called for an immediate ceasefire, followed by a cooling-off period and a series of confidence-building measures to bridge the gap between the current violence and a resumption of long-term negotiations. Mr Sharon, opposed to the implications of “final status” talks and to at least one bit of confidence-building (the demand for a complete stop to settlement expansion), invented a delaying mechanism. He decreed unilaterally that any cooling-off period must be preceded by a week of absolute calm on the Palestinian side (the Israelis could continue to “defend” themselves), and that he alone would judge whether the calm was calm enough. It never was, and probably never would be (see article).

This seven-day obstacle was not tackled head-on by Mr Powell. But the personal envoy he is sending this weekend to the region, Anthony Zinni, a retired marine general and a former commander of American forces in the Middle East, has been told to stick around until a ceasefire is arranged. George Tenet, the director of the CIA, tried in the early summer to fix a security co-operation formula but found himself having to accept Mr Sharon's precondition. General Zinni, a tenacious negotiator with a no-nonsense demeanour, may get round it. “We will push, we will prod,” promised Mr Powell in his speech. Talking to the press afterwards, he gave a hint of what he expected from his marine colleague: “You'll see what pushing and prodding is when Tony Zinni gets on the ground.”

If an end to violence is an end in itself, it won't happen

The Palestinian leaders will be pushed and prodded too, commanded, in the words of both Mr Powell and the Mitchell report, to make a 100% effort to prevent violence and terror, and to punish the perpetrators

of terrorist acts. This is a fair, indeed essential, requirement of any ceasefire. But Mr Arafat's ability to deliver will depend very largely on whether the Palestinians believe that the American initiative is a serious bid at a long-term resolution of their troubles, or whether the end to violence is simply conceived of as an end in itself. The paradox is that the limited aim of damage control has a better chance of working if it is genuinely sought in the context of the riskier, more uncertain pursuit of a political solution.

Many Palestinians would agree with Mr Powell's assessment that their armed uprising against occupation has become self-defeating. But having endured more than a year of a suffocating economic blockade, endless humiliations, and the killing of hundreds and the wounding of thousands, a dangerously large number are in the mood to go on hurting themselves so long as they can hurt some Israelis too. However inexcusable, their bitterness is a breeding-ground for terrorism against Israeli civilians. Without some hope of light, albeit in the distance, they are not as yet ready to give up.

Words count in the Middle East, and Mr Powell's words were well-chosen. He was wise to return to the basic concept of land for peace, calling on Israel to end its occupation in line with the principles embodied in UN Security Council resolutions. The crucial question is whether his president is prepared to insist doggedly on the same principles when Mr Sharon visits him in Washington early next month.

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British public services

Tougher than the Taliban

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The government is going the wrong way about improving public services

TONY BLAIR seems to prefer strutting the world stage to reforming public services, but that is hardly surprising. The Taliban may be tough guys, but they've been a pushover compared with some of the opponents of change that the government has met in schools and hospitals. Yet the government will be judged at the next election not on its part in defeating global terrorism, but on its ability to deliver better public services. And that's a battle it does not seem to be winning.

As Mr Blair has often said, for Britain's public services to work better, two things are needed: money and reform. The money is coming, but in the case of health, the service the government is most worried about, it is not having much effect (see article). That is because the main thrust of the government's reforms to date has been in the wrong direction.

There are two ways of reforming public services. Change can be ordered from above or it can be allowed to happen from below, by giving consumers choice and freeing producers to respond to those choices. The advantage of the first model is that it can be controlled from the centre, which sets priorities and budgets. This is the model that the government—like the Soviet Union before it—has chosen.

In areas in which performance can easily be measured, this approach can work, up to a point. The government has, for instance, set schools targets for reading, writing and arithmetic, and names and shames schools by publishing their results. In the first few years of this scheme, the improvements were impressive, even if some of them were due to the schools, rather than the children, learning how to pass tests.

But, in medicine, outcomes are harder to measure, and targets can distort outcomes. The government's target of reducing waiting lists famously led some hospitals to cut their numbers by treating people who needed quick operations, rather than difficult ones. Simple targets can be simplistic; complex ones unmanageable. The police, at one point, faced 3,000 targets.

The big disadvantage of central control is that it stifles local initiative, preventing those delivering services from responding to the demands of those they serve. And, since making public services more responsive to what the public wants is exactly what the government is trying to achieve, increasing the level of central control seems an odd way to go about it.

Stand and deliver

The reason the government chose this route is that the alternative—creating a market in public services, in effect—is difficult. The unions hate the idea, because service-providers get to set working practices and can fire at will. Safety-nets have to be designed to prevent people from suffering when hospitals and schools fail. Spending can get out of control, as people choose to consume more and better services.

But these difficulties have to be faced, because introducing choice and competition into the public services is the only way to improve them. The government evidently realises that, and is making changes at the margin—for instance, by allowing private companies to compete for public-service business. That

is a step in the right direction, but does not go far enough.

If the money being poured into the public services is to improve their output by the time of the next election, the government has to start making big changes now. If it does not, Mr Blair will go down in history as just another politician who promised more than he could deliver.

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Asian economies

Pointing the finger—at East Asia

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It is time for Asia to stop blaming others for its economic woes

IF BAD news comes in threes, the emerging economies of East Asia should be really scared. First, they had a deep financial crisis in 1997-98. Now, only three years later, many are in recession once again. This year and next, taken together, they are likely to see even slower average growth than during 1997-98 (see article). Bad news number three could be a reduction in East Asia's previously bright long-term growth prospects—if their governments fail to act correctly.

Most Asian governments like to blame their economic woes on others. The 1997-98 crisis was blamed on the rise in the dollar against the yen, which eroded the competitiveness of those countries that had tied their currencies to the dollar. The next culprits were foreign speculators, who forced governments to abandon their fixed exchange rates, and the IMF, which forced governments to adopt hairshirt policies. The current recession is again being blamed on foreigners, in the shape of America's slowdown, the global slump in IT spending, and increasing competition from China.

The turnaround in America's economy from boom to bust has indeed hurt East Asia badly. But much of the blame for the slump lies at home: namely, the failure to clean up the banks after 1997-98 and the failure to make timely use of fiscal and monetary policy to fend off incipient deflation. As a result, the collapse in exports has hurt these economies more than it should have done, because domestic demand is so feeble.

The former East Asian tigers rebounded faster than expected from the 1997-98 crisis, thanks mainly to America's economic boom of the late 1990s. Unfortunately, this encouraged complacency; governments concluded that further economic reforms could wait. Completing the reforms would not have conferred immunity against America's recession and the tech bust, but it would have cushioned the blow. Instead, banks saddled with bad loans are reluctant to lend for new investment, and over-indebted firms are in no mood to borrow. This makes interest-rate cuts less effective.

The East Asian governments also need to be more willing to allow exchange rates to fall, and to use fiscal policy to boost demand. In an alarming number of countries, nominal GDP is shrinking, yet some governments, notably Taiwan's, are reluctant to pursue aggressive monetary or fiscal easing.

Japanese punishment, Chinese torture

An enfeebled banking system that cramps growth, shrinking nominal GDP, hefty corporate debts and massive excess capacity. Does that sound familiar? Unless governments wake up, there is indeed a risk that some emerging East Asian economies could resemble Japan in the 1990s—and so be in for a prolonged period of low growth. One difference is that, unlike Japan, most cannot afford to delay reform. Such small, open economies can hide from problems less easily than Japan's relatively closed economy; most are also net foreign debtors, whereas Japan was and is the world's biggest creditor.

Economic reform is also essential if these economies are to deal with the growing “threat” from China. China is in fact an opportunity, not a threat, because it offers such a vast export market. Even if China

could make everything more cheaply, East Asian economies would still benefit if they specialised in industries in which they have a comparative advantage. But that could necessitate some big domestic adjustments. The threat does not come from China itself, but from the way governments respond.

The risk is that some governments could react to both deep recession and Chinese competition with intervention and protection to “save” jobs. Instead, they need to set free their economies, deregulate services, scrap barriers to more efficient resource allocation, and allow the marketplace to establish where they have a comparative advantage. They also need a healthy banking system to assist the shift of capital. Otherwise new businesses will be held back by a lack of finance.

The real worry for the emerging Asian economies is not the depth of the current recession, but their future prospects. If their governments become more interventionist and inward-looking, the erstwhile roaring tigers could soon come to look more like flabby old cats.

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Foreign aid

Enough talk

Nov 22nd 2001
From The Economist print edition

Ways to put your money where your mouth is

EPA

TOO little is done for the more than one billion people in the world who scrape by on less than a dollar a day. So argued Britain's finance minister, Gordon Brown, last week to the World Bank and the International Monetary Fund, and he is right. Over the past decade there has been a steep drop in the amount of foreign aid spent per impoverished person. Only five rich countries (Denmark, Sweden, Norway, Luxembourg and the Netherlands) meet a United Nations target of spending 0.7% of their GNP on aid. Meanwhile, the world's poorest are afflicted by new diseases, such as AIDS, and the recurrence of old ones, like malaria and tuberculosis. In a few countries life expectancy is back to what it was a century ago. Many of the poorest economies have been badly hit by low prices for their exports, misrule and civil strife. Mr Brown would like to see the amount spent each year on aid for poor countries doubled to $100 billion. Could it also be more wisely spent?

Western largesse cannot cure poor countries' ills. Misspent aid money can even make things worse. And, most important, the poorest must find ways to make their own economies work better, to boost trade and to generate more wealth for themselves. Yet wise, well-financed aid programmes can save lives, lessen poverty and encourage some growth.

Britain, unusually, is increasing its aid spending, after several years of decline; and, by no longer insisting that a lot of it be spent on British-made goods, it can help the money to do more to help the needy. In general, donors are also getting better at monitoring how their aid is used, and stopping it when misuse is suspected, as in Kenya, Zimbabwe and now, reportedly, Malawi. As with debt relief for the poorest, donors try to make sure that poor-country governments do not cut back their own spending on things like health and education just because foreign money goes there too.

If donors want to spend their aid money even more usefully, they could improve on their meagre promises this year for a global health fund. Kofi Annan, the UN secretary-general, thinks $7 billion is needed annually, so that the poorest can have better help, such as AIDS drugs that slow the spread of that disease, as well as simpler things such as mosquito nets that can help to limit the spread of malaria but are used by only 2% of African children. Another priority could be the education of girls; they are the first to be pulled out of school to care for AIDS orphans, to support hungry families or because fees are too high. But when women are better educated it is much easier to limit population growth, to teach hygiene and healthy living, and to improve farming practices. Unicef, the UN's children's fund, says universal primary schooling would cost an extra $9 billion-12 billion a year.

Cheapest of all, donors could train economists and government officials of the poorest countries so that they are better equipped to negotiate market access for their goods. Only when poor countries make progress in world trade talks, like those in Doha earlier this month, will the argument that “trade, not aid, will end poverty” be proven right. As a slogan it is often used as an excuse for the rich not to act. Watch to see if Mr Brown, and his rich-country colleagues, put real money where their mouths are.

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Letters

Nov 22nd 2001
From The Economist print edition

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Developing solutions

SIR – You say of the trade talks in Doha, that "the least enthusiastic for a new round have been the poor countries", and then urge them on by saying that "with higher trade barriers, on average, than rich countries, they have the most to gain from further liberalisation" ("High stakes at Doha", November 3rd). It is true that countries, as they grow richer, tend to reduce barriers to trade. But you posit that countries undertaking trade liberalisation will subsequently experience higher economic growth. Unfortunately the evidence is against you. There is no clear statistical relationship between the level of trade barriers and a country's subsequent economic growth, once other influences on growth, such as macroeconomic policies, are held constant.

You imply that there is no limit to desirable trade liberalisation. The historical evidence from countries that have sustained fast growth and those that have not suggests, on the contrary, that trade protection can be one of a number of powerful instruments for nurturing new activities and higher value-added processes in existing activities, provided it is brought down *pari passu* with the rise in producers' production and marketing capacities.

On the other hand, there is plenty of evidence that the people and capital released from activities knocked out by trade liberalisation are not always able to be re-combined to make other products saleable in internationally competitive markets, whatever the exchange rate. They may well not be employed at all. Think of Africa.

The danger of your position—and that of the great majority of negotiators at the World Trade Organisation—is that countries are induced to focus intensely on trade liberalisation and market access as the main solution to development problems, diverting resources from the build-up of national development capacity. A new multilateral trade round should go ahead only if based on acceptance by rich countries that the round must give developing countries sanction to pursue proactive industrial and technology policies, and grant them enhanced access to industrial country markets not matched by reciprocal concessions. Otherwise the developing countries should walk away.

Robert Wade
Development Studies Institute, London School of Economics
London

Radical view

SIR – You betray a certain parochialism by referring to "Buddhists, vegans, pro-Palestinian activists and other radicals of all stripes" ("All we are saying", October 27th). Admittedly veganism may seem extreme, especially in a publication that subscribes to Burgernomics, but the people of my host nation will be surprised to learn that they and their religion are regarded as radical. Perhaps, 2,500 years ago, but not any longer surely?

Alex Robinson
Bangkok

Oil depletion

SIR – We all appreciate colourful journalism but it is misleading to suggest that the speakers at the Oil Depletion Analysis Centre's seminar are such oddballs ("Sunset for the oil business?", November 3rd). Three are former senior-exploration managers—from Fina, Total and Amerada Hess—and one is the former head of alternative fuels, and subsequently renewables, at Shell. Your readers may wish to speculate why oil depletion is discussed most openly by executives no longer in post.

Roger Bentley
Oil Depletion Analysis Centre
London

SIR – The group of experts at the Oil Depletion Analysis Centre seems to be industry insiders conforming to the adage "when all you have is a hammer everything looks like a nail." This is the old guard looking back with hindsight.

My concerns are that we now use oil and gas in a low-tech way, to generate thermal energy. Decreasing availability of oil and gas is a benefit, not a disadvantage. If wood had not become scarce in Europe as a fuel we would never have dug for coal and developed the understanding which allows development of oil and gas reserves. Energy companies are a pragmatic lot. Give them the ability to innovate and make money and we will have energy for the foreseeable future. Regulate them, starve them of capital and places to develop resources and we will see wild supply swings and price fluctuations.

Alan Foley
Houston

SIR – If oil is indeed running out, why has the average marginal cost of each extra barrel of production been falling over the years?

Sreenath Vakkaleri
Dundee

Religious harmony

SIR – Though Christians may be worried in some countries of the Middle East, it is not true in Lebanon ("Testing times for a worried minority", November 3rd). For over ten years, since the end of the civil strife, Christians and Muslims have lived in harmony. There were recently a couple of fires in churches—acts of individuals—but not "several churches and Christian properties" fire-bombed. Also, a small Jewish community which stayed in Lebanon during the civil war still flourishes and the few old synagogues in the country are all still standing, with no trace of attack.

Elie Antoine Sehnaoui
Beirut

SIR – The photograph which accompanies your article on Christians in the Middle East was of an Armenian priest in the Church of the Nativity in Bethlehem, one of Christianity's holiest sites. This is particularly poignant, as Bethlehem has recently witnessed strife including the presence of Israeli tanks in the streets. In 301, the Armenians were the first people to declare Christianity as their state religion. They struggled to maintain their Christian beliefs and practices living amid Muslim communities. It was disappointing that they were not given even a passing mention in your article.

Patricia Apelian
Manhasset, New York

Self-obsession?

SIR – You describe as "ludicrous" the row over the other invitees to a Downing Street dinner between Tony Blair, Jacques Chirac and Gerhard Schröder and use it as an example of the EU's self-obsession ("Guess who wasn't coming to dinner?", November 10th). Is it self-obsession if states want to gain information and influence on the most important issue of world politics now? Is Mr Blair self-obsessed when he tries to remain influential in decision making in America?

I do not think that the episode illustrates how hard it will be to forge a common foreign and security policy. What stands in its way is that the bigger powers instinctively relapse into traditional bilateral

politics when times get more difficult.

Michael Meyer-Resende
London

The end

SIR – You mention one surviving Belgian veteran from the Great War (“Journey's end”, November 10th). Alas, not true any more. Paul Ooghe died at the age of 102 on September 9th this year.

Ronald de Regt
Keerbergen, Belgium

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Special report

Distantly, the shape of peace

Nov 22nd 2001 | ISLAMABAD AND KABUL
From The Economist print edition

EPA

The people long for it. Afghanistan's warlords have other ideas

Get article background

JUST over a week after the liberation of Kabul from Taliban rule, the future of Afghanistan remains far from clear. Although optimism prevails in Kabul itself, as citizens once again enjoy music, films, shaved chins and the occasional glimpse of female beauty, the war is not yet over, and the shape of peace is far from planned.

The Northern Alliance has cleared the Taliban out of most of the non-Pushtun north of the country, and the active fighting has shrunk to two spots, Kunduz and Kandahar. In Kunduz, in the north-east, the Taliban and members of their foreign legion of Arabs, Pakistanis and others were holding out on November 22nd, and surrender talks seemed to have broken down. The foreigners fear they will be killed either by the Northern Alliance or by the authorities back home if they are deported. With no option, in their view, but to fight to the death, they have been executing Afghan Taliban who want to surrender.

In the Pushtun-dominated south, Taliban rule has shrunk to its stronghold of Kandahar and parts of the region that surround it. After the fall of Kabul there were reports that Mullah Mohammed Omar, the Taliban leader, was negotiating a deal with local Pushtun tribal elders that would allow him to escape from the city, but nothing came of it.

American bombing is now limited mostly to the south-west, to Kunduz and to sporadic drops against Taliban on the run. Elsewhere, food-aid can be more dangerous; a large crate, dropped in the western city of Herat on Monday night, demolished the shrine of the city's most revered Sufi saint. General Tommy Franks, the head of the Central Command, says of the military campaign there is still “a great deal of work left to do”. Nonetheless, as the war aims move near achievement, thoughts are turning towards the aims of peace.

The Northern Alliance, the main victors in Afghanistan and the new masters of Kabul, are a loose grouping of militias drawn mainly from ethnic minorities. Their rule would be unacceptable both to Pushtuns, the largest ethnic group, and to Pakistan, which regards them as little better than proxies for Iran, Russia and, worst of all, India. There are clear signs that Russia and Iran together are trying to establish the Alliance as the outright winner of the war, and want to restrict American and, especially, Pakistani involvement in any post-war settlement.

Much of the south and east is being carved up into fiefs by Pushtun chieftains who answer to no central

authority. Some parts remain lawless: it was in one such area, between Kabul and the eastern city of Jalalabad, that four journalists were killed by gunmen on November 19th. Once Osama bin Laden and the Taliban are gone, what is to stop the United States and its allies from abandoning the region, allowing Afghanistan to subside into old habits of anarchy and violence?

The answer is that such neglect bred terrorism in the first place. But it is one thing to call for an Afghan government that is “broad-based, multi-ethnic and fully representative”, as the United Nations Security Council has just done, and quite another to bring it about. The graft of putting one together is expected to begin on November 26th outside Bonn, at a meeting of Afghan factions under UN auspices. The 25 or so delegates are supposed to set up an interim administration for Afghanistan and, equally important, to decide what sort of foreign force, if any, should keep the peace and guard the distribution of humanitarian aid.

Merely getting Afghan groups to agree to show up is an achievement. The Northern Alliance, and in particular the Tajik-dominated Jamiat-i-Islami faction, which controls Kabul, has little apparent reason to go along with a process that is likely to dilute its power. Burhanuddin Rabbani, who is of the Jamiat-I-Islami faction, was until very recently the internationally recognised president of Afghanistan and has moved into Kabul's “Palace Number One”. The Northern Alliance has sometimes sounded like a government, for example in rejecting the deployment of thousands of troops that Britain had wanted to send. But it insists that it intends to share power rather than seize it. Its agreement to go to Bonn, said Francesc Vendrell, the deputy UN envoy, “is a signal that we are in a completely different era.”

In Bonn the Northern Alliance will face an array of mainly Pushtun groups, drawn primarily from the ranks of exiles rather than from the new power-brokers inside Afghanistan. They are expected to include a delegation of half a dozen from the former king, Mohammed Zahir Shah, plus smaller contingents of Pushtuns based in the Pakistani frontier city of Peshawar, who are thought to be friendly to Pakistan's government, and members of the Iran-influenced “Cyprus process”. No Taliban have been invited. Russia, for one, insisted on that.

The assemblage looks multi-ethnic and, at a pinch, broad-based. No one could reasonably ask at this stage that it be fully representative. The overriding questions are whether it can agree on how to share out power and whether it can translate that agreement into effective mechanisms for administration inside Afghanistan.

James Dobbins, the American envoy to non-Taliban groups in Afghanistan, is optimistic. After visiting the region, he said the Northern Alliance had made no effort to marginalise southern Pushtuns and that southerners (and Pakistan) acknowledged that the Alliance would be part of a future government. All seemed to accept that the ex-king, who is widely regarded as a unifying figure, would have an important symbolic role. On an international security force there is less agreement. Southerners are eager for one, said Mr Dobbins; the Northern Alliance would accept foreign troops to fight terrorists and protect aid convoys, but has not decided whether they should be used for peacekeeping.

The worry is that local politics are outpacing UN-led country-building just as the military offensive did. A motley cast of characters is grabbing power by virtue of tribal stature, religious authority or access to money or guns. In Jalalabad three potentates have agreed, apparently peaceably, to share power in the eastern region. But there are still reports of looting in the city, much of it by several thousand armed men brought in by the new security chief. Outside Jalalabad, the troika is thought to control only pockets of the eastern region. In Sarobi, on the road between Jalalabad and Kabul, a checkpoint notorious in pre-Taliban days for extorting money from travellers has reportedly been re-established. A UN official reports that commanders associated with an exiled warlord, Gulbuddin Hikmetyar, have returned to their earlier positions on the road to Kabul through the eastern province of Laghman. He warns that any international force “will have to be prepared to fight” if it is to disarm such gunslingers.

The absence of a broadly accepted government in Kabul is an invitation to mischief. Pakistan and Iran may be tempted to influence events through proxies inside Afghanistan. The Northern Alliance may be trying to do the same in Pushtun-dominated areas of the country. The UN official says that Qari Baba, a commander famous for his exploits against Soviet forces during the 1980s, is trying to create a “Northern Alliance-friendly enclave” in Ghazni, a southern province. Ethnic Uzbeks and Hazaras, a Shia minority, have traditionally been sceptical of central authority and favour regional autonomy. If they do not like what is going on in Kabul, they may be tempted by separatism.

Afghanistan has not yet descended into the chaos that prevailed before the Taliban took over. In many ways life has improved after the flight of those who enforced their stifling version of Islam, especially for

women in cities. Aid and development programmes stalled after September 11th are being revived. Although some roads have become more perilous, slowing delivery of desperately-needed food, UN flights have resumed from Islamabad, Pakistan's capital, to Kabul. The United Nations Development Programme is looking for ways to expand projects that are not linked to political decisions, says Knut Ostby, the UNDP's deputy representative.

But Afghanistan cannot continue for long without politicians who command wide assent. Long-time observers see the Bonn meeting as a last chance to create a central authority that gives the country coherence without repression and modernises without trampling traditional ways of life. The forces working against it are powerful. Billions of dollars for reconstruction will be made available only to such a government, but the billions to be made from smuggling and selling opium are probably more appealing to petty warlords. Mr Rabbani, who still regards himself as president of Afghanistan, has dismissed the Bonn meeting as merely “symbolic”. Afghanistan's long-suffering people must hope he is wrong.

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Muslims and Christians

Khatami's view

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From The Economist print edition

The refreshing voice of moderate Islam

Get article background

ABOVE the roar of war, quieter voices must struggle to make themselves heard. The comments made last week by Muhammad Khatami, the president of Iran, have not been much noticed. They deserve to be, for Mr Khatami is widely read in western philosophy as well as in the teachings of Islam. Here are extracts from his speech, delivered to American religious leaders in New York.

> Nihilism as a mere philosophical indulgence may prove socially quite harmless. But what we are witnessing in the world today is an active form of nihilism in social and political realms that threatens the very fabric of human existence. [It] assumes various names, and it is tragic and unfortunate that some of those names bear a resemblance to religiosity and some proclaim spirituality...
>
> Vicious terrorists who concoct weapons out of religion are superficial literalists clinging to simplistic ideas. They are utterly incapable of understanding that, perhaps inadvertently, they are turning religion into the handmaiden of the most decadent ideologies. While terrorists purport to be serving the cause of religion and accuse all those who disagree with them of heresy and sacrilege, they are serving the very ideologies they condemn...
>
> The role of religious scholars has now become even more crucial, and their responsibility ever more significant. Christian thinkers in the 19th century put forward the idea that religion should be seen as a vehicle for social solidarity. Now that the world is on the edge of chaos...the notion of Christian solidarity should prove helpful in calling for peace and security. In the holy Koran, human beings are invited to join their efforts in , and means solidarity, which can be translated into co-operation to do good. We should all co-operate in the cause of doing good.

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Herat

Sharing power is hard to do

Nov 22nd 2001 | HERAT
From The Economist print edition

The perils of reconstruction

Get article background

AP

A morning stroll to see the sights

EVER since he was expelled from Herat by the Taliban in 1995, Ismail Khan says he has spent his time—including three years in a Taliban jail—mulling over the best way to run the biggest city in western Afghanistan. He was its governor, and a fairly successful one, in the old days. But ten days after he re-took control of it, in the wake of the relatively bloodless uprising that forced the Taliban out, Mr Khan still has the air of a chief, not a politician.

Both his Sunni ethnic-Tajik supporters and the minority Hazaras—who claim Mongol descent and are mostly Shias—are demanding the political spoils of the military campaign. In shaky combination, they have conquered or part-conquered all the five provinces—Badghis, Ghowr, Farah, Nimruz and Herat province—which Mr Khan loosely controlled until his defeat six years ago. Now each group is demanding its reward. The city's disorganised Shia Tajiks, who may amount to 40% of the population, are also clamouring for recognition. In addition, Herat's new overlords suspect that the tens of thousands of ethnic Pushtuns who were stranded in nearby refugee camps when the Taliban fled may be hiding arms and plotting revenge. No wonder the money-changers in the bazaar reported a mini-run on the local currency, the afghani, after its value had soared in the wake of the liberation.

Influential friends are urging Mr Khan to share power, not something he cared to do during his first stint as Herat's overlord. Iran's consul-general, who has not set foot in Herat since a Taliban-inspired mob threatened to kill him in the summer, returned to the city on November 17th just in time to defuse tensions after a bloody fracas, apparently between Mr Khan's men and the Hazara-dominated Unity Party, left at least one man dead.

Although he graciously allowed 40,000 of his supporters, assembled at Friday prayers, to proclaim him Herat's governor, Mr Khan has tactfully refrained from making such a claim himself. The full details of a new administration will be worked out only once the immediate military task, of clearing stray Taliban units from western Afghanistan, has been achieved. For the moment, the Unity Party recognises Mr Khan only as “commander of the western front”. Political and religious leaders on both sides have united to call for restraint and co-operation. And Mr Khan has promised to allow elections, of a sort, to determine who should take over the day-to-day running of the city.

He is being deliberately vague, however, about how a new government might look. “Aptitude and merit”, he says, will determine who gets the plum jobs. Presumably his son, whom he has named police chief, and another confidante, who is the new head of intelligence, have such qualities in spades. Shias, both Tajik and Hazara, fear a return to the cynical preferment that prevailed during Mr Khan's last period in power, when all the city's 50-odd top bureaucratic posts were filled by Sunni Tajiks. When Herat was freed, advancing Unity Party units did not dally in placing their men, literally, in some government posts. Mr Khan's people say a deal has been reached to get them out again.

They have also promised to empty the city of the armed men currently roaming around it, many of whom got their weapons from armouries and police stations after the Taliban fled. Unity Party commanders say their ranks have been swollen by more than 1,000 armed men, but Mr Khan's superior numbers—before the current campaign, he claimed to have 12,000 men at his disposal—no doubt helped him persuade

them to start withdrawing their men from the city centre, and to hand over the area of Herat province that borders Iran. This has given Mr Khan control over the cross-border trade to which Herat owes its (decidedly relative) prosperity.

Mr Khan talks of marching on Kandahar, but many people think this is mere bravado. Almost 400km (250 miles) and pockets of enemy forces lie between the main body of his men and the southern Taliban stronghold. Besides, it was just such an attempt that left Herat exposed in 1995, leading to its fall.

Heratis are still enjoying the small freedoms, banned by the Taliban, that Mr Khan has restored. Within 24 hours of the liberation, Herat's television station was once again broadcasting prayers, music and encomiums to the commander of the western front. After some hesitation, the city's traditionally adventurous women have begun to take advantage of the relaxation of the Taliban's restrictions on their dress and behaviour. Their daughters are hoping that Mr Khan (who has a good record on education) will re-open the girls' schools by next spring. He may have the means to do so; in their hurry to leave, the Taliban left behind large amounts of gold and cash in the city's only bank.

The Unity Party's military strength, and the role played by ordinary Heratis in the city's liberation, may act as a brake on Mr Khan's absolutist tendencies. So, too, will his allegiance to Burhanuddin Rabbani, the leader (more or less) of the Northern Alliance, who hopes to set up an interim administration in Kabul. The overwhelming majority of Heratis would prefer Mohammed Zahir Shah, the former king, to preside over such a government. To express this sentiment, hundreds of them held a demonstration in a park on November 21st; the police intervened vigorously, making many arrests.

Nor do Mr Khan and ordinary people see eye to eye on the possible deployment of an international force to maintain the fragile peace and, eventually, decommission arms. “Without such a force,” says Mohammed Hasan Farid, a local Shia leader, “security cannot be guaranteed and administration cannot be formed, and more terrorism will be the result.” Mr Khan disagrees. And he, for the moment, is calling the shots.

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The al-Qaeda network

Eight down, many more to go

Nov 22nd 2001
From The Economist print edition

A flurry of arrests does not mean the movement can be written off

Get article background

"IN OUR classes, we have entered the field of aviation, and even slit the bird's throat." Thus a mysterious interlocutor known as Shakur—possibly one of the hijackers who attacked the United States on September 11th—to a comrade based in Madrid in a cryptic conversation on August 27th. "But my objective is the objective, and I don't want to go into details," the caller added, after swearing the listener to secrecy.

These and other bizarre snippets of evidence were presented this week by Baltasar Garzon, Spain's best-known magistrate, as part of his case for the continued detention of eight militant Islamists, resident in Spain but mostly of Syrian origin, who had been arrested on November 13th. The recipient of the telephone call was Abu Dahdah, also known as Imad Eddin Barakat Yarbas, the leader of the gang of eight and—according to Judge Garzon—the head of a "terrorist cell" which formed part of the al-Qaeda network, whose ultimate godfather is Osama bin Laden. Mohammed Atta, the 33-year-old Egyptian "suicide pilot" who seems to have led the September 11th attacks, had a copy of Abu Dahdah's phone number among his possessions, and he had visited Spain a couple of times earlier this year.

AP/EPA

Abu Dahdah and his friends: Seedl Acait, Said Chedadi, Osama Ddarra...

EPA/AP

Galan Gonzalez, Zaher Asade, Dalati Satut, Jasem Mahboule

Judge Garzon's evidence, gathered over several years, leads him to the conclusion that the Madrid-based gang were actively involved in preparing the September onslaught, and that they were working under the supervision of Mr bin Laden and other Afghanistan-based godfathers. Maps of several European cities, including Dublin and Milan, as well as forged documents and stolen credit cards, were found in their

homes. In court papers, the judge presents a detailed picture of Abu Dahdah's contacts with militant Islamists in other parts of Europe—including Britain, to which he made more than 20 trips—Turkey, Afghanistan and Indonesia.

One of Abu Dahdah's oldest comrades, Chej Salah, who had helped him to foment militant Islam in Madrid during the mid-1990s, later went to Afghanistan and played a prominent role in the terrorist-training network, according to Judge Garzon. Mr Salah, in turn, worked closely with Abu Zubaydah, a Saudi-born Palestinian who is one of Osama bin Laden's most trusted aides and may be al-Qaeda's "director of operations". A smooth and effective line of communication therefore existed between the Madrid cell and the terror network's highest echelons.

The Spanish authorities have said they want to interview the eight detainees about a plot to make one or more suicide attacks in Europe, using poison gas—possibly cyanide—before the end of this year. Among the targets that Islamist terrorists are believed to have considered are the American embassy in Paris and the NATO headquarters in Brussels.

Does the wealth of evidence presented by Judge Garzon, along with a spate of arrests and seizures of financial assets in other parts of Europe, suggest that al-Qaeda's international network is finally being dismantled, just as its foot-soldiers are facing military defeat in Afghanistan? Authorities in several European countries have certainly made some progress in tracking down and arresting militant Islamists. The French authorities have been questioning several Franco-Algerian militants, including Djemal Beghal, who was arrested in July while travelling from Pakistan to Europe and initially stated—though he later sought to retract this—that he had instructions from Abu Zubaydah to attack the American embassy in Paris.

Another Franco-Algerian suspect, Kemal Daoudi, was picked up in Britain in late September. He, Mr Beghal and a French convert to Islam, Jerome Courtailler, had spent time together there, sitting at the feet of some of London's more extreme Islamist preachers. The United States, meanwhile, is hoping that Britain's courts will soon agree to extradite a Saudi comrade of Mr bin Laden and fellow-opponent of the Saudi royal family called Khalid al-Fawwaz, as well as two Egyptians suspected of links to al-Qaeda.

Perhaps the biggest blow of all suffered by the organisation was last week's death in an American bombing raid in Afghanistan of Mohammed Atef, a relative by marriage of Mr bin Laden, and described in an American court paper as al-Qaeda's military commander. And it is fair to assume that hundreds of al-Qaeda's foot-soldiers have been killed during the unequal combat of recent days. But despite this flurry of military defeats, judicial activity and detective work, those who know al-Qaeda best say it would be wildly premature to write the movement off.

The very fact that the eight people detained in Madrid stayed in one country—Spain—most of the time suggests that they cannot have played a central role in the network, according to Mustafa Alani, an associate of the Royal United Services Institute in London who has been studying al-Qaeda for many years. As Mr Alani puts it, the network differs from all other militant Islamist movements in its global reach, its focus on very high-value targets and its skill at covering its traces by spiriting agents from one country to another. Although there are some vocal Islamist preachers who like to boast of their connections with al-Qaeda, the network would never want to use prominent Islamic figures who are probably under police surveillance anyway. Its hardest-core operatives are trained to live as respectable citizens who break no laws.

The name al-Qaeda (the base) dates from the mid-1980s, when Mr bin Laden was playing a prominent role in the American-backed war against the Soviet forces who were occupying Afghanistan. At first it referred to the organisation that supplied logistics and religious teaching to the anti-Russian mujahideen. But the name was borrowed and adapted by Mr bin Laden when, in the 1990s, he became bitterly anti-American and—at first from a base in Sudan and later from Afghanistan—he built a vast network of militant Islamists whose unifying bond was anti-Americanism and opposition to Arab regimes that were deemed to be pro-American.

Where necessary, al-Qaeda will encourage some of its agents to engage in petty crime, like robbery and forgery, as a source of liquid cash; but there is usually a high "Chinese wall" separating these operatives from the prized volunteers who are preparing to lay down their lives in suicide attacks. Only three terrorist operations are viewed with certainty as being al-Qaeda's work: the August 1998 bombing of the American embassies in Kenya and Tanzania, the suicide attack on the *USS Cole*, an American destroyer, in Yemen last year, and the onslaught of September 11th.

All these assaults required years of meticulous reconnaissance and planning—at least four years in the case of the embassy bombings. Also required was careful, discreet co-ordination between small groups of people who were careful never to stay in one place too long (particularly the country where the attack would eventually be carried out), and who could easily be replaced if they came under police observation.

Based on the three “successful” operations—and on other attacks which al-Qaeda has planned but has not managed to execute—analysts like Mr Alani have built up a picture of the network's preferred mode of operation. Support teams are spirited out of the country before or immediately after the operation, while participants in the suicide mission are told not to go anywhere near the scene of their intended crime until a short time beforehand. While Mr bin Laden and his comrades might well take a close interest in the operation—and send their personal representatives to liaise with the support teams—they would be careful not to put any instructions in writing or to use any other easily-intercepted form of communication.

According to Bruce Hoffman, a terrorism specialist at RAND, an American think-tank, the idea of “staunching the flow of money” to groups of Islamist extremists is not as simple as it sounds. For one thing, suicide missions are not all that expensive, in relation to the damage they cause; the terrorists' biggest asset is not wealth but desperation and willingness to sacrifice their own lives. The September 11th operations, which cost the American economy untold billions of dollars, may have cost the perpetrators only $200,000.

Magnus Ranstorp, a terrorism specialist at St Andrew's University, believes western governments may have made a mistake in focusing their rhetoric too much on Mr bin Laden, instead of stressing that he heads a large, intricate network which will not disappear instantly, even if he and his immediate comrades are killed or neutralised. Mustering public support for a continued campaign against al-Qaeda—both overt and covert—could become difficult after its leadership has been knocked out.

Western governments feel confident that they know the names of most of al-Qaeda's “consultation council”, the network's ruling body, which numbers between 25 and 30 people. They apparently include Egyptians (following the merger with al-Qaeda of one of Egypt's main Islamist movements in 1998), Algerians, Yemenis and Syrians as well as Saudis. But there is still some confusion as to how the council takes decisions, or whether it ever meets in full session—apparently not, according to Mr Ranstorp.

Even less is known about the identities and origin of the 4,000 or so fighters who are believed to form the “hard core” of al-Qaeda—some of them now engaged in a losing battle in Afghanistan, and others scattered round the world. Then there is a grey area of overlap between these core fighters and the various militant groups which al-Qaeda has helped to train, and to which it may “subcontract” operations.

Although the network's most senior bosses have always kept a close eye—through various ultra-secret lines of communication—on what their agents are doing, that may now change. After the American attack on Afghanistan, al-Qaeda's foot-soldiers have reportedly been given the green light to attack “targets of opportunity” without authorisation at the highest levels. But if the network is plotting any really spectacular attack on western targets, that conspiracy will almost certainly have been under way since long before September 11th.

According to al-Qaeda's military doctrine—as reflected in the manuals which have fallen into western hands—the network is likely to put a high value on recovering senior members of the organisation who are captured. Mr Ranstorp believes that if Mr bin Laden or any of his top lieutenants is taken alive, al-Qaeda may resort to spectacular kidnappings as a way of bargaining for their freedom.

But despite this gloomy prognosis, the successes scored by western governments—both on the Afghan battlefield and in the police stations and courtrooms of Europe—are still significant blows to the network's interests, say al-Qaeda-watchers. Whatever their precise rank, the eight suspects detained in Madrid were almost certainly people “with the capacity to inflict great pain”, according to Mr Hoffman.

By decapitating its leadership and unpicking at least part of its network, western governments may be able to neutralise, temporarily, the phenomenon of Islamist terror and fend off some horrors that might otherwise have occurred. It may be harder to persuade impatient electorates that even when that task has been accomplished, the struggle against terrorism must go on.

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Hunting for bin Laden

Cherchez l'homme

Nov 22nd 2001
From The Economist print edition

Who wants to be a millionaire?

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HE MAY not even be in Afghanistan. So say the Taliban, who last said this in a desperate attempt to stop American bombing before it started. Now it may be true. Osama bin Laden may have slipped across the border into Tajikistan, Turkmenistan or Pakistan. But the betting, according to *al-Watan*, a Saudi newspaper, is that he is holed up near Kandahar, in the south, withstanding America's bombs in a heavily fortified hideout in the mountains.

AP

Possibly in a cave near you

Although his network will almost certainly survive him and draw new strength from his martyrdom, should it occur, the Americans badly want to capture or kill the man himself. (Donald Rumsfeld, America's defence secretary, admitted on November 21st that he would prefer him dead.) In that hope, they have blanketed northern areas of Afghanistan with leaflets, dropped from aircraft, offering a bounty of up to $25m for information leading to the capture of either Mr bin Laden or one of his top lieutenants, Ayman al-Zawahiri. Radio messages to that effect are going out, too. The reward has quintupled from when it was first announced.

The Pentagon says it will send more ground troops to hunt down Mr bin Laden and kill him, once they get the nod about where he is. Marines from warships may also be deployed. Officials claim that American special forces almost got him, a few weeks ago, when their aircraft were hovering above an entrance to a valley from which he was supposed to emerge in a convoy of trucks. He went out by another way.

In diplomatic circles, there is said to be doubt that Mr bin Laden will ever be taken alive. *Al-Watan* confirms this. The newspaper says that if he finds himself surrounded and unable to escape, he has already given one of his sons instructions to shoot him.

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Intelligence failures

In the house of anthrax

Nov 22nd 2001 | KABUL
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Chilling evidence in the ruins of Kabul

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AMERICAN officials increasingly believe the anthrax attacks since September 11th were not carried out by people connected to al-Qaeda, but may have been the work of a lone American madman. To avert future attacks, though, perhaps they should look harder.

They might start, for example, in a nondescript house in the wealthiest district of Kabul, where a Pakistani NGO called Ummah Tameer-e-Nau (UTN) once had its offices. UTN's president is Bashiruddin Mahmood, one of Pakistan's leading nuclear scientists and a specialist in plutonium technology. Last month Mr Mahmood was arrested by the Pakistani authorities and interrogated on his links to the Taliban, with whom he has had frequent contact for, he insists, humanitarian reasons. Mr Mahmood was released again soon afterwards. The Taliban has denied any “abnormal” links between Mr Mahmood and Mr bin Laden, and he himself says he has never met the man.

In public, UTN helped Afghans with flourmills, school textbooks and road-upgrading schemes. But its offices suggest that this may have been a cover for something far more sinister. According to their neighbours, the Pakistanis who lived and worked there fled Kabul along with the Taliban, but the evidence they left behind suggests that they were working on a plan to build an anthrax bomb.

An upstairs room of the house had been used as a workshop. What appeared to be a Russian rocket had been disassembled, and a canister labelled “helium” had been left on the worktop. On the floor were multiple copies of documents about anthrax downloaded from the Internet, and details about the American army's vaccination plans for its troops. The number of copies suggests that seminars were also taking place there.

One of the downloaded documents featured a small picture of the former American defence secretary, William Cohen, holding a five-pound bag of sugar. It noted that he was doing this “to show the amount of the biological weapon anthrax that could destroy half the population of Washington, DC.”

On the floor was a small bag of white powder, which this correspondent decided not to inspect. It may have contained nothing more deadly than icing sugar, but that could be useful for experiments in how to scatter powder containing anthrax spores from a great height over a city, or to show students how to do this. The living room contained two boxes of gas masks and filters.

On a desk was a cassette box labelled “Jihad”, with the name of Osama bin Laden hand-written along the spine. Most chilling of all, however, were the mass of calculations and drawings in felt pen that filled up a white board of the sort used in classrooms. There were several designs for a long thin balloon, something like a weather balloon, with lines and arrows indicating a suggested height of 10km (33,000 feet). There was also a sketch of a jet fighter flying towards the balloon alongside the words: “Your days are limited! Bang.” This, like the documents, was written in English.

Since UTN was run by one of Pakistan's top scientists, a man with close links to the Taliban and, it is said, close ideological affinities with Mr bin Laden, the circumstantial evidence points to only one conclusion. Whoever fled this house when the Taliban fell was working on a plan to build a helium-powered balloon bomb carrying anthrax. Whether it was detonated with a timer or shot down by a fighter, the result would have been the same: the showering of deadly airborne anthrax spores over an area as wide as half of New York city or Washington, DC.

After the September 11th attacks, it was generally agreed that western intelligence agencies had failed through lack of “human intelligence”—men on the ground, as opposed to spy satellites and computers monitoring phone calls and e-mails. This failure was to be rectified. Yet since the fall of Kabul on November 13th, journalists have been fanning out across the city. They have stripped houses such as this one, and others directly connected to the al-Qaeda network, of all sorts of documents and other valuable evidence. These have included the names and addresses of al-Qaeda contacts in the West. For the West's intelligence agencies, September 11th was Black Tuesday. There may be no words with which to describe their failure in the week since the fall of Kabul.

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Foreign policy

Where should Mr Bush put his chips now?

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American politicians are beginning to argue about what "phase two" of the president's war on terror should be

"AFGHANISTAN," George Bush told the conference on combating terrorism in Warsaw on November 6th, "is the beginning of our efforts in the world." What comes next? The unexpected swiftness of the Taliban's collapse has left different parts of the administration scrambling for an answer.

After its victory in the Gulf war in 1991, the first Bush administration plunked down the political capital it won in the Muslim world on an effort to restart the Arab-Israeli peace process. It convened the Madrid conference that, ten years and many convolutions later, collapsed last year at Camp David.

With victory at hand against the Taliban (though not yet, it seems, against al-Qaeda), the second Bush administration also finds itself with capital to spend in the region—capital that comes from the display of American military might and impressive political resolution. And Bush II seems, on the face of it, to be trying to repeat the history of Bush I.

On November 19th, Colin Powell, the secretary of state, committed America to restarting the peace process for the umpteenth time. He appointed a new envoy to negotiate a ceasefire, Anthony Zinni, a former general (like Mr Powell). And he restated America's backing for final-status talks on a Palestinian state (see article).

Mr Powell did not come up with any grand peace plan of his own, relying instead on previous short-term agreements to end the fighting. And Mr Bush did not commit his own authority to the peace effort, in the way that Bill Clinton did.

Still, Mr Bush did say for the first time that America would help nudge the rivals towards a deal (he had previously said only that he would help broker an accord when Israel and Palestine were ready for it). And, by dispatching his own envoy to the region, Mr Powell went further than he has done in the past to committing his personal authority to the process. Before this, he has kept his distance by merely using America's ambassadors in the region as go-betweens.

So "phase two" of Mr Bush's war is the Middle-Eastern peace process? Not if the so-called neo-conservatives have anything to do with it. "Phase two," writes Tom Donnelly, in the *Weekly Standard*, "is a euphemism for Iraq. As the campaign in Afghanistan has progressed, a consensus has emerged that it is high time to remove Saddam Hussein from power."

That may be a slight exaggeration. Paul Wolfowitz, the deputy secretary of defence and the man who in the past has argued most forcibly for Saddam's overthrow, has been cautious, arguing that “Saddam Hussein is one of [a number of leaders supporting terrorism] but not the only one.” At a conference in Geneva, John Bolton, the under-secretary of state for arms control, took the unusual step of naming Iraq for illegally building biological weapons—but he named five other countries, too.

This more guarded language is very similar to that used by some Democrats. For example, Joe Lieberman has argued that “[Saddam] has got the means—chemical, biological, working on nuclear—and the motive. He will do us terrible damage unless we do him out of power.”

The idea that Iraq is the logical phase two is usually associated with the Pentagon; and supposed to be anathema at the State Department. But that view may be wrong. On November 7th, Mr Powell said this: “Nations such as Iraq, which have tried to possess weapons of mass destruction, should not think that we will not be concerned about those activities and will not turn our attention to them.” The State Department has also been quietly forging closer political ties with exiled Iraqi military officers.

Encouraging the peace process and attacking Iraq are not necessarily alternatives. Arguably, they could complement one another: Arab support for the peace process could mitigate the regimes' likely (public) hostility to an attack on an Arab state. But the chances are surely that most Arab leaders would shun any American-led peace effort, at least while war was being waged. So the administration would have to assume that attacking Iraq would hamper efforts to find a settlement between Israel and Palestine.

The real question, then, is should America try to overthrow Saddam Hussein? The political dynamic appears to be in favour. Politicians of all stripes support the idea. Almost all the pressure in America during the war on Afghanistan was for more force, not less. One poll, for example, found that nearly as many people thought the attacks on the Taliban were not strong enough (41%) as thought they were about right (47%). That suggests the public could be receptive to arguments in favour of a second front. And there is a political consensus that Saddam is not merely, in the words of Condoleezza Rice, the national security adviser, “a bad actor”, but a possible threat to national security.

Yet those who have to think about how in practice to remove the beast from Baghdad are much more sceptical. Career diplomats might be thought congenitally incapable of planning a war against anyone. But both the CIA and the generals (including Mr Zinni, Mr Powell's envoy) are also notably unenthusiastic desert warriors. The reason for this divide is that the two groups, politicians on the one hand, planners and diplomats on the other, have drawn different conclusions from the war in Afghanistan.

For the “remove Saddam” crowd, the lesson is that a repressive power, however strong it may look, will crumble under American bombing and popular resentment. American military backing transformed a rabble on horseback into an effective fighting force. And the lesson from the attacks on September 11th is also clear. If your sworn enemy can launch massive strikes against you, he will. As Richard Perle, the chairman of the Pentagon's defence policy board, puts it, “I would hate to see us having this debate after another terrible attack on America.”

The diplomats and planners, on the other hand, argue that the Iraqi opposition, especially the main organisation, the Iraqi National Congress, cannot be compared to the Northern Alliance. They have no military bases to operate from. They are not supported by any neighbouring power.

And the pragmatists also dispute the lesson from September 11th. Unlike Osama bin Laden, Saddam Hussein has a return address and can be deterred from using weapons of mass destruction. Indeed, the planners and generals fear that an attack on Iraq would increase the chance that these weapons might be used—by Saddam himself or by al-Qaeda, if he gave them the arms as a last resort.

Mr Bush is the only person who can resolve this disagreement. For the moment he is rightly focused on the unfinished business in Afghanistan. The fact that no decision has yet been made may even explain why some people in the administration feel comfortable about making general warning noises to Saddam.

One possible next step might be to demand the immediate return of United Nations weapons inspectors to Iraq, with far more intrusive powers, in return for a change in the sanctions regime. This might have the advantage of mollifying some of America's European allies, notably Russia, which has proposed ending all sanctions except military ones, and Britain (which would mildly change sanctions). Both are opposed to attacking Iraq.

But what if Saddam rejected the demand? Or accepted it and sought to hoodwink the inspectors? In so

far as Mr Bush's views can be discerned, they would appear to lean slightly towards trying to remove Saddam. This week Ms Rice, usually a weathervane of presidential opinion, said: “The world would clearly be better off, and the Iraqi people would be better off, if Saddam Hussein were not in power in Iraq. I don't think there's any doubt about that.” Indeed not. But there is plenty of doubt about how to do it, and the risks that may be incurred by doing so. And the time for deciding whether to run those risks cannot be far off.

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Anthrax

Curiouser and curiouser

Nov 22nd 2001 | WASHINGTON, DC
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It seems ever more likely that the attacks are the work of an American terrorist

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AP

Increasingly familiar

THE anthrax mystery deepened on Tuesday when a 94-year-old widow fell ill with suspected inhalation anthrax, the rarest and most deadly form of the disease; she died almost at once. This is the first new case since another woman, a Manhattan hospital worker, died in late October.

The first 16 anthrax cases all involved people (three of whom died) connected with the media, politics or the postal system. The two most recent victims were different. The Manhattan woman had no apparent contact with any source of the disease. The 94-year-old lived in Oxford, a village in rural Connecticut, close to Waterbury, an old industrial town that still likes to call itself “the brass capital of the world”. She left her home only to go shopping occasionally.

An army of anthrax experts has descended on Connecticut to try to find out how this unlikely victim contracted the disease. She can hardly have picked it up from an infected animal: anthrax has not been found in livestock on the east coast for decades, and anyway this is not, the scientists say, how inhalation anthrax is caught. The current guess is that a letter to her somehow picked up a small quantity of anthrax in the postal system, and that at her age even a small amount proved fatal.

The outbreak of anthrax anxiety in Connecticut contrasts with the calmer mood in the capital. More anthrax spores have been found in the offices of two Democratic senators, Edward Kennedy and Christopher Dodd, but not enough to require medical treatment. A more potent anthrax-laden letter, to Senator Patrick Leahy, was found on November 16th; but that seems to be the last such letter in a huge batch of congressional mail that was quarantined on October 15th (after the discovery of a poisoned letter to Tom Daschle, the Senate majority leader). The fact that Mr Leahy's letter was temporarily misdirected to the State Department may explain why a worker there fell ill.

The letter is being examined by a team of scientists at an army laboratory. Mr Leahy, a Vermont senator, is better known for backing liberal causes, such as abortion rights, than for his views on Middle Eastern politics. Add this to the fact that Mr Daschle is now in effect the Democratic Party's leader, and the case is strengthened that the anthrax attacks are the work of a home-grown right-wing nutcase, rather than a global Islamic terrorist network. At least, that is the theory until the next victim appears.

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The economy

Hey, big spender

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How resilient are America's consumers?

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OVERSIZED wreaths, plastic fir trees, gold baubles and the canned strains of Bing Crosby. It is Thanksgiving week and, as always, the aesthetic essentials of the holiday shopping season have arrived in America's malls. But this year the familiar tableau is clouded by one big uncertainty: with the country at war and the economy in recession, will the American consumer be willing to spend?

Judging by the behaviour of many retailers, the answer is no. Stores are bracing themselves for a meagre Christmas season. They have slashed their stocks and have already begun aggressive discounting, convinced that people will keep a closer eye on their wallets this year.

Which is what Americans say they intend to do. According to a survey by the Conference Board, released on November 20th, American households want to spend an average of $462 on presents this year, down from $490 last year. The Conference Board reckons overall Christmas retail sales will be about 4% below last year's projections. Others are more optimistic. The National Retail Federation expects holiday sales to rise between 2.5% and 3% compared with last year. But even that is much less than the rise in 2000. For now, sales at chain stores remain below their levels before September 11th.

On the other hand, America's shoppers seem to be sticking to their habit of out-spending everyone's expectations, even their own. After a brief fall in September, retail sales in October soared by 7.1%—three times the level expected. Most of this rise is down to a 26% increase in sales of vehicles, as millions of people took advantage of “zero-financing” deals offered by the big car firms. No one, even in Detroit, expects this pace to continue. Excluding vehicles, retail sales rose a more modest 1%, though that was still higher than many analysts expected.

Overall consumer spending—on goods and services—is by far the most important component of America's GDP, and it has long been the most resilient. Looking ahead, there are several factors that suggest it could hold up. Consumer confidence appears to be rising from its lows. The University of Michigan's gauge of consumer sentiment rose to its highest level in three months in November. Wall Street, which has shaken off its recent gloom with a vengeance (see article), points to three prompts for shoppers.

First, energy prices look likely to continue downwards, freeing up money for spending elsewhere. America's households spend about $350 billion on energy (from petrol to home heating). Economists at Goldman Sachs reckon that if crude oil prices average $18 a barrel in 2002, $10 below the level in the first three quarters of 2001, real household income could jump by $50 billion, or about 0.5% of GDP.

Americans are taking advantage of extremely low interest rates to refinance their mortgages. Estimates suggest that this is being done at a rate of $300 billion a month. If $2 trillion-worth of residential mortgages (around 40% of the entire stock) is refinanced over the next year, and the interest paid on them reduced by one percentage point, then lower mortgage payments would in theory leave another $20 billion in consumers' pockets.

Then there are tax cuts. George Bush's first tax package has already pumped $38 billion into the bank accounts of American households this year. And there is the possibility of more tax cuts to come. The stalemate between Democrats and Republicans continues over what a broad stimulus package should look like. But new ideas about how to help the consumer quickly are bubbling to the fore. There is talk of a payroll-tax holiday during December: the federal government would suspend withholding of both the employer and employee share of Social Security taxes. Two senators have suggested a ten-day national sales-tax holiday.

These three props look strong enough to prevent tumbling consumption triggering a deep recession. But they must be set against powerful negative forces—especially a weakening labour market. Unemployment is rising and hours worked are falling. Although the number of people claiming unemployment benefits for the first time fell last week to 427,000, the lowest level since September 11th, no one doubts the jobless figures will rise further. With their jobs less secure and their debts still high, Americans may choose to save any extra cash that comes their way, however tempting the tinkling in the mall.

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Student visas

Chillier on campus?

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Foreign students—and the universities they support—face harder times

KOFI ANNAN, the secretary-general of the United Nations, did it; so did Vicente Fox of Mexico, Jacques Chirac of France and King Abdullah of Jordan. All of them went to “college” in America (the French president enhanced his experience with a job scooping ice cream). But, as the war for talent has given way to the war against terrorism, the welcome America extends to foreigners on its campuses is becoming much more guarded.

Last year, half a million foreign students were enrolled at American universities and colleges. According to the Institute of International Education (IIE), about half came from Asia, mainly China and India. Fewer than 7% came from the Middle East. Students account for under 2% of all non-immigrant visas (though they have the right to stay for much longer than tourists). They spend $11 billion a year on tuition and living expenses, helping to make higher education America's fifth-largest service export. And, as any visit to a Silicon Valley start-up reveals, they bring huge talent to the American economy.

Until September 11th, the chief complaint was that America did not fully exploit this human capital. Like other countries, it limits the amount of time foreign students can work in the country after they graduate. The IIE frets that America's share of the foreign-student market has dropped from 40% to under 30% in the past decade: it blames not only its higher university fees and greater competition from Europe and Australia, but also America's cumbersome visa process.

The revelation that at least one of the September 11th hijackers entered the country on a student visa now means that barriers are likely to be raised, not lowered. The State Department has already slowed down the visa process for young men from more than 20 Muslim countries, to check their backgrounds. Arguing that at least 10,000 students had entered the country over the past ten years from “such terrorist-supporting states as Iran, Iraq, Sudan, Libya and Syria”, Senator Dianne Feinstein of California at first proposed a six-month moratorium on all student visas. She has now dropped that idea, but she is the co-sponsor with Jon Kyl of Arizona of a wide-ranging “Visa Entry Reform Act”.

This bill covers all visa applicants, but students are one of its main targets. Among other things, it demands far tougher scrutiny of their applications and far more documents; it would prevent visas being granted to students from terrorist-supporting states (though this could be waived on a case-by-case basis); and it would require institutions to notify immigration authorities when a foreign student fails to show up for class. Students, like other foreigners, would also eventually get biometric “Smart Visa” cards that carry personal information such as fingerprints and can track their comings and goings. (More than 4m such cards have been issued to Mexicans since 1998.)

The Feinstein-Kyl bill, which is still being debated, looks likely to get merged with a slightly more lenient bill sponsored by Ted Kennedy, which would limit the extensive checking to people from suspect states. But a tough bill of some sort should emerge soon after Thanksgiving.

Exam papers

That the current system is a mess is hard to dispute. Visas of all sorts have been granted with too few checks. The State Department complains that the intelligence services have not shared information about visa applicants with consular officers abroad. There have been stories of fraud and bribery. Once inside the country, students can easily disappear. Immigration officials have no idea how many people who originally entered the country on student visas have stayed on illegally.

Even if the Feinstein-Kyl bill disappears, students will find themselves under more scrutiny. Congress has already authorised the spending of $38.6m to speed up the implementation of an electronic system that will track the holders of student and exchange visas and keep information about them. The system, which has already been tested in 21 southern colleges, will go nationwide in 2003. It has now been expanded to cover students at air-flight schools, language-training centres and vocational schools. Foreign students will face a $95 fee to pay for the database monitoring them.

Snooping on campus is on the increase. So far universities have co-operated with the FBI's requests for information. But many are nervous about some of the proposals, and not just on civil-rights grounds. Some big universities—including New York University, the University of Southern California and Boston University—have sizeable (and profitable) foreign enrolments. Some of the country's smaller colleges rely on fees from foreign students to balance their budgets.

In some places, there has already been a drop in applications from abroad. A few students, chiefly from the Middle East, have abandoned their studies and gone home because their families were worried about them. But the true test of the new regime's toughness and the willingness of foreign students to put up with it will not come until next spring, when the visa-application process begins for the new academic year.

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Railways

A puff of steam on the Plains

Nov 22nd 2001 | ST PAUL, MINNESOTA
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The whoo-whoo rides out west again

THE Dakota, Minnesota & Eastern Railroad Corporation has spent the past few years teetering toward oblivion. Its liabilities are great, and its main asset is a patchwork of rail lines that straggle from Minnesota into South Dakota, hardly an industrial hotspot. But this week the railroad's boss, Kevin Schieffer, took a step towards turning his untidy railway into something of a giant—and building what some locals claim is America's biggest new rail network since the civil war.

The DM&E's plan involves spending some $1.5 billion to refurbish 600 miles of track and build some 200 extra miles, creating a continuous line stretching from the Mississippi river in Minnesota to Wyoming's Powder River basin, the nation's most prosperous coal region. The DM&E hopes that trains will haul 100m tonnes of coal a year to the Mississippi, and on to mid-western power plants.

Coal is not a bad bet, despite efforts to promote cleaner-burning fuels. It already provides the United States with more than a quarter of its power, and its importance may have been enhanced by the Bush administration's enthusiasm for deriving energy from domestic resources. The Powder River area's coal is relatively low in sulphur, and thus low in acid-rain-producing sulphur dioxide when it burns. On November 19th, the federal Surface Transportation Board released a long-awaited environmental-impact statement that was in the railroad's favour.

Coal shippers are enthusiastic about the project. So are many of the people in the mostly poor small towns along the route. The DM&E has told them the project will create 6,000 temporary construction jobs, and 2,000 permanent railroad jobs. It has also promised farmers along the proposed route to carry their grain and other farm produce to market.

Dave Walder is less enthusiastic. His house in Brookings, South Dakota, sits, according to his measurement, exactly 141 feet from the railway line. He fears that the peace of his garden will be shattered by 30 trains a day rolling past. People in Brookings, concerned about noise and traffic jams, are cross that the Surface Transportation Board's report rejected proposals to bypass their town and the two larger towns on the route, Pierre in South Dakota and Rochester in Minnesota.

Ranchers and Indians both have complaints, too. The former fear that noxious weeds will grow along the tracks, that trains will hit their livestock, and that they will throw sparks that could set dry brush ablaze. Some Indian tribes contend that a new line will violate their treaty rights, desecrate some of their sacred sites, and (a more modern complaint) cause pollution.

The opponents are already discussing plans to fight the DM&E in court. They hope that the DM&E's project will meet the same fate as the proposed Tongue River Railroad in Montana, another line meant for the transport of low-sulphur coal. That line was originally conceived in 1981. But, 20 years on, its enemies are still successfully delaying its construction.

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The tobacco settlement

Saved by smokers

Nov 22nd 2001 | CHICAGO
From The Economist print edition

States are frittering away the money they extorted from the tobacco firms

AP

On top of the problem

AT THE first Thanksgiving, the Wampanoag Indians generously shared their tobacco with the settlers. Now the politicians of Tennessee are enjoying a more relaxing holiday because of cigarettes. When a gaping hole opened in the state's budget for the current fiscal year, which started on July 1st, the legislature made up the difference by swiping $560m—the revenue available to Tennessee in the next fiscal year from its share of the $206 billion settlement agreed upon with the tobacco firms in 1998.

Other states have found tobacco money handy, too. New Hampshire, which has no income or sales tax, is using tobacco money to pay for its schools. Arizona is providing health care for the poor. Others—like deluded grannies trying to cash in their pension—are seeking to swap all their future payments for one cash sum.

Indeed, you can almost say that states are spending their tobacco winnings in every way except one: trying to stop their citizens from smoking. In fiscal 2002, only one dollar in 20 of the settlement money will be used for that purpose, according to the National Conference of State Legislatures.

That modest figure adds fuel to the notion that the 1998 settlement was a case of legalised extortion. In theory, the states were suing the tobacco companies to recoup the “extra” costs tobacco imposed on state health systems. They chose to ignore the fact that, by killing people off early, tobacco was also saving them a lot of money. But the tobacco industry was an easy target.

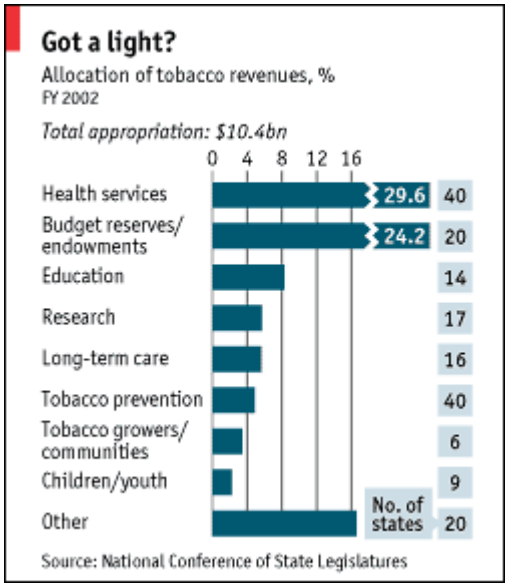
In the 1998 settlement, the tobacco companies agreed to make payments to 46 states in perpetuity. (Four states settled their lawsuits separately.) The first 25 years' payments will add up to roughly $206 billion, including the $8.2 billion the states will receive in 2001. Future annual payments will be adjusted upwards or downwards according to inflation and cigarette sales (thus giving the states an incentive to encourage smoking).

Back in 1998, there was a lot of pious talk about the money being used for anti-smoking programmes. To be fair to the states, nobody expected it all to go that way. The settlement did not stipulate how the cash was to be used. The Centres for Disease Control and Prevention (CDC) recommended that states use about 20-25% of the money for comprehensive tobacco-control programmes.

Last year, only six states spent the minimum recommended by the CDC, according to the Campaign for Tobacco-Free Kids; this year, only five will. “I think we are a little surprised and mostly disappointed,” says Peter Fisher, of that campaign. Instead, most of the money has gone to health services, endowments and trust funds to pay for existing non-tobacco-related programmes and education (see chart). Only a bit more money has gone to tobacco-prevention than to helping troubled tobacco growers.

This makes the anti-smoking lobby groan. Comprehensive anti-smoking programmes work, says Mr Fisher. In 1988, California's voters passed Proposition 99, which raised cigarette taxes and used 20% of the revenue (over $100m a year) to argue against tobacco. Since then, California's tobacco consumption has fallen by 38%, twice as much as in the rest of the country. Massachusetts

launched a similar programme in the 1990s, cutting the rate of increase for teenage smokers and reducing all cigarette consumption by 30%.



The politicians try to argue that they are just making up lost ground: in the past, tobacco-related health spending prevented money going on other things, says Scott Pattison, director of the National Association of State Budget Officers. The better explanation is that politicians cannot resist lavishing “found money” on their favourite projects. Mississippi's attorney-general, Michael Moore, who led the state's battle against the tobacco industry, says that governors and legislatures treat the money as if it fell out of heaven.

Consider Illinois. That state's legislature set up a special tobacco-settlement committee which recommended spending the money on a campaign against smoking and on strengthening the health-care system. What actually happened was a rebate on the property tax. And although Tennessee's governor, Don Sundquist, vetoed the legislature's decision to cobble the budget together with tobacco money, it overrode his veto. “If the legislature had deliberately set out to wreck the state's finances, I doubt it could have done a better job,” Mr Sundquist lamented.

A number of states have decided that, if getting money from the tobacco industry is nice, getting it in one lump sum would be even nicer. Seven states have already found an ingenious way of doing this, or are planning to: they get the bulk of their tobacco-settlement money now by selling municipal bonds backed by future settlement revenues. Those who favour this device argue that it protects the states from any payment disruption, such as the bankruptcy of the tobacco industry. But Wisconsin did it, and promptly spent half of the money ($450m) to meet a revenue shortfall in the 2002 budget.

If politicians want to spend more, they should cut future health-care costs by getting people to smoke less, says Mr Fisher. That will not happen soon. As state budgets get stretched, tobacco money will become all the more attractive. And when today's smokers fall sick, where will the money come from?

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Lexington

The Lord Protector

Nov 22nd 2001
From The Economist print edition

John Ashcroft has caught the mood of the country—for the moment

MOST politicians start the day by devouring the newspapers, usually for references to themselves. John Ashcroft, a fervent Pentecostalist, prefers to start his day with Bible study and prayers. Even if the attorney-general later allows his aides to brief him on the fiendish liberals in the media, this arrangement must be good for his temper as well as his soul. Mr Ashcroft has never had a good press.

As a senator from Missouri, he was sneered at for his piety (as he saw it) or abhorred because of his rough campaigning habits and conservative views on social issues (the journalists' version). His defeat by a dead Democrat last autumn was welcomed in newsrooms across the country. His surprising appointment to Mr Bush's cabinet as attorney-general caused this paper to shudder; the *New York Times* woke up in an ambulance on the way to Mount Sinai. Since September 11th, while the coverage of George Bush, Donald Rumsfeld and the rest has warmed considerably, Mr Ashcroft's has, if anything, become even frostier. The media have attacked him for everything from bungling the anthrax investigation to shredding the constitution.

Some of this criticism is to the point. Mr Ashcroft's scheme to allow the Justice Department to eavesdrop on conversations between detainees and their lawyers is a clear breach of the constitution's sixth amendment. His plan to try terrorist suspects in secret military tribunals looks dangerous; it may even stop America's allies from handing over suspects they have caught. Yet, by the same token, much of the criticism—particularly of the investigation—has been silly and shrill. Columnists demanding an immediate solution to the anthrax attacks seem to have forgotten that it took 17 years to catch the Unabomber.

And all this wrangling about Mr Ashcroft may have obscured the most important thing about him. Since September 11th, the dour-faced Missourian has transformed himself into the most powerful attorney-general since Robert Kennedy. Of all America's politicians, Mr Ashcroft was one of the quickest to understand how fundamentally the terrorist attacks would alter the country. He was flying to Milwaukee when he heard the news (though he did not then learn that the victims included Barbara Olson, the wife of his solicitor-general). He immediately told his staff that “this will change the world as we know it.” Ever since, he has repeatedly reminded people that “the risks have never been at this scale in American history.”

By depicting his task as a battle against a “conspiracy of evil”, Mr Ashcroft has transformed both his job and his status. Before September 11th, he was a marginal figure in the administration, still smarting from a bruising confirmation battle. Now he is at the heart of events, and using his new-found prominence to reshape his position. He has centralised anti-terrorist activities in his own hands,

personally overseeing both the biggest manhunt in American history and the prosecution of suspected terrorists. He has pushed through a far-reaching anti-terrorism bill. He is also reshaping the FBI, the Immigration and Naturalisation Service, and the Justice Department itself.

This zealous bustle of activity is based on two principles. First, terrorism must be moved from the periphery to the centre of the Justice Department. (It is said that Robert Kennedy's Justice Department was so set on fighting organised crime that it would arrest a mobster for spitting on the sidewalk if that would help the cause. Mr Ashcroft wouldn't let an Islamic terrorist even get the phlegm ready to spit.) Second, the legal system needs to shift its emphasis from prosecution to prevention. This explains the decision to detain more than 1,000 people on anything from immigration violations to material-witness warrants; the drive to question another 5,000 people of Middle Eastern origin; the moves to disrupt terrorist financing; and, above all, the legal changes that allow the intelligence services to share information and gain access to grand-jury testimony.

Administratively, it is difficult to fault Mr Ashcroft. The law-enforcement empire he inherited was shambolic. The FBI was famous not just for bone-headed gumshoes but for turf wars with other agencies. Morale at the Justice Department, a sprawling bureaucracy that employs more than 100,000 people, had collapsed under Janet Reno, thanks to her mishandling of a succession of headline-grabbing cases and her tortured relationship with both the Clintons and, usually, the head of the FBI. Mr Ashcroft enjoys good relations with both Mr Bush and the current FBI boss, Robert Mueller. The department has a sense of purpose again—and the remorseless Mr Ashcroft typifies it.

And those awkward civil-liberties issues? They may disgust Europeans, the press and the denizens of academia, but Mr Ashcroft has most ordinary Americans on his side. Opinion polls show even fewer worries about locking up terrorists than about bombing Afghans. For all the griping, only one senator, Russell Feingold, voted against Mr Ashcroft's anti-terrorist legislation. The United States faces an enemy that not only boasts of its enthusiasm for nuclear and biological weapons, but also has people already in America bent on killing as many Americans as possible. Mr Ashcroft's supporters think his aggressive campaign to disrupt terrorist networks may well have frustrated further attacks. Who better to fight off foreign religious fundamentalists than a home-grown version?

The idea of Mr Ashcroft's new model army of investigators rooting out evil has an appropriately Cromwellian feel. (England's Lord Protector also disapproved of drinking, dancing and smoking.) But it also points to a tension at the heart of the anti-terrorist campaign. For America is fighting not just a war against terrorism but one on behalf of freedom. The struggle to stop al-Qaeda from wreaking havoc in the United States is currently all-consuming. But one day Mr Ashcroft's tribunals and detentions will be exposed to the light; and that may not be the brightest part of America's finest hour.

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Canada's economy

The big chill

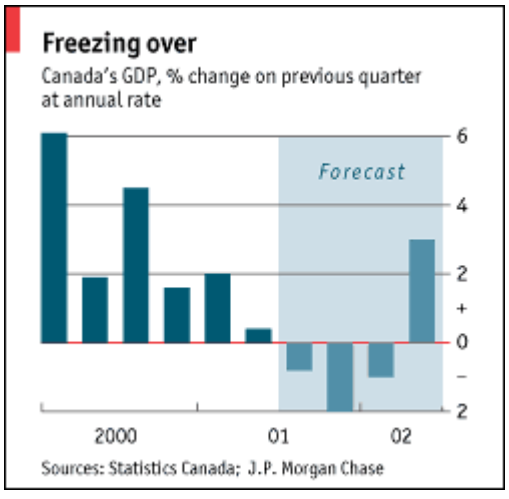
Nov 22nd 2001 | TORONTO
From The Economist print edition

A recession spreading from the south will provide a test of whether Canada's economy is sufficiently reformed

Get article background

AT THE giant casino in Windsor, Ontario, just across the St Clair river from Detroit, eight out of ten gamblers are Americans. Or rather they were, before September 11th. Since the terrorist attacks, half of the cross-border visitors have preferred to stay at home. To woo them back, the casino has slashed its hotel rates by a third and launched an advertising blitz in Michigan and Ohio. Even so, the casino, which is Windsor's third-biggest employer after two of America's big three car makers, has had to lay off 15% of its 5,200 staff.

The chill that has descended over Canada's economy with the Arctic winds of autumn does not stop at Windsor. For better or for worse, never has Canada been more dependent on its big neighbour to the south. Since the first of two free-trade agreements between the two was signed in 1988, cross-border trade and investment have soared. In the first nine months of this year, the United States took 85% of Canada's exports, up from 73% in 1988. Over the same period, its share of Canadian imports climbed from 66% to 73%.



So the business downturn in the United States has quickly crossed the border. After several years of strong growth stimulated by America's boom, Canada's economy, the world's ninth-largest, is now widely assumed to be already in recession. The more optimistic of economists reckon that GDP might expand by 2% next year, but with no growth before the spring.

The squeeze is being felt across much of the economy. In the year to September, exports to the United States were 7% down on the previous 12 months. Mining and forestry, cornerstones of many communities, are being squeezed by weak demand, falling prices and, in the case of lumber, punitive American anti-dumping duties. The slide in oil and natural gas prices is bad news for the west. Alberta, Canada's Texas, was the fastest growing of the ten provinces last year, at 5.5%. It will be lucky to achieve half that in 2002. High-tech industries, whose rise in the 1990s was trumpeted by officials as proof that Canada no longer produced only raw materials and cars, have their own troubles.

In the past, whenever the American economy has caught a cold, Canada has had severe flu. This time, officials hope that Canada will fare no worse than its neighbour. Inflation is low, the current account is in surplus, the financial system looks sound, and the public finances are healthily in the black.

Even so, this month the Canadian dollar has plunged to an all-time low of close to 62.3 American cents, hit by falling commodity prices and a retreat by foreign investors. Many economists expect the currency to weaken further. Canadian firms have failed to match the productivity gains of their American rivals over the past decade. “Only the depreciation of the dollar has kept Canada competitive,” says Joshua Mendelsohn, the chief economist of Canadian Imperial Bank of Commerce. Some suggest that the loonie, as Canada's dollar is dubbed, will eventually disappear, as more and more Canadians prefer to save and trade in greenbacks.

The Bank of Canada was slow off the mark in easing monetary policy as recession loomed. But it has become more aggressive, cutting its benchmark interest rate from 5.75% in January to 2.75%, with a further fall of half a percentage point expected next week. Cheaper mortgages have kept the housing market buoyant.

If monetary policy and an American recovery fail to revive the economy soon, pressure will grow for a fiscal stimulus. That is something that Paul Martin, the finance minister for the past eight years, has so far resisted. It has taken much hard work by Mr Martin, as well as balanced-budget laws in several provinces and strong economic growth, to transform towering fiscal deficits into a combined federal and provincial surplus of C$30 billion, or 3% of GDP, in the year to March 2001. Of the ten provinces, only Nova Scotia and tiny Prince Edward Island failed to balance their books. The ratio of federal-government debt to GDP has shrunk from 71% in 1995 to an estimated 49% this year. Fiscal discipline has allowed Canada's traditionally steep personal and corporate tax rates to fall towards American levels.

But now tax revenues are stagnant, and welfare spending is rising in line with unemployment. In 2002-03, the public sector will record a deficit of $8 billion, estimates Toronto-Dominion Bank. Facing calls to loosen the purse strings further, Mr Martin has brought forward his annual budget from February to mid-December. But if he has his way, the only extra spending this will contain will be a few billion dollars on anti-terrorist defences and, perhaps more importantly, to improve roads, bridges and security along the border with the United States. With the two economies now so closely meshed, keeping trucks and trains rolling smoothly across the border during what is set to be a long, hard winter has become a national priority.

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Politics in Brazil

Roseana's rise

Nov 22nd 2001 | SAO PAULO
From The Economist print edition

Could Brazil get its first woman president next year?

Get article background

Cover star, and poll phenomenon

“THAT is the woman I admire,” Roseana Sarney told an interviewer last year, speaking of Margaret Thatcher. Just as Mrs Thatcher rose rapidly to become Britain's first female prime minister, so a spectacular surge in the opinion-poll ratings for Ms Sarney, the governor of the north-eastern state of Maranhao, gives her a chance of becoming Brazil's first woman president in next October's election.

Her entry into the campaign is also an unexpected complication for President Fernando Henrique Cardoso. He hopes to anoint as the candidate of his loose centre-right coalition one of several contenders from his own Social Democratic party (PSDB). But to preserve his own authority, he has delayed his decision. As a result, it could yet fall to Ms Sarney, a member of the Liberal Front (PFL), the coalition's most conservative member, to take on Luiz Inacio Lula da Silva, the perennial candidate of the Workers' Party (PT), the left-wing opposition, who has led the opinion polls for more than two years.

Though Mr Cardoso is said to get on well with Ms Sarney, she is hardly his natural successor. The daughter of Jose Sarney, a conservative populist who was Brazil's president from 1985-89, she is a scion of one of the traditional political dynasties of the backward north-east.

In August, her party decided to make Ms Sarney the star of its commercials. The aim seems to have been to persuade Mr Cardoso that she would make an ideal running-mate for the PSDB candidate. But her rise has exceeded all expectations: in one poll, her support moved from 11% in August to 19% in October. Another, telephone, poll this month put Ms Sarney at 26%, two points behind Mr da Silva. She has started to appear on magazine covers, including that of *Veja*, Brazil's leading news weekly.

By contrast, the leading Social Democratic contenders, Jose Serra, the health minister, and Tasso Jereissati, the reformist governor of Ceara, another north-eastern state, barely figure in the polls. They trail three hopefuls from the soft-left, Ciro Gomes, another former governor of Ceara, Anthony Garotinho, the governor of Rio de Janeiro, and Itamar Franco, an eccentric former president.

Mr Cardoso has been waiting for the economy, and thus his own popularity, to recover, making it easier for him to impose his decision on his fractious alliance. But with the economy again flirting with recession, he cannot be certain of rallying the whole coalition behind his choice. Indeed, since Ms Sarney's father is now a senator for the catch-all Party of the Brazilian Democratic Movement (PMDB), the coalition's third main member, she is arguably in as good a position as the president to do that.

Despite her conservative background, the polls suggest that the public, paradoxically, regard her as a “third way” alternative to the government and the Workers' Party, says Ricardo Guedes of Sensus, a polling firm. A similar image helped Messrs Garotinho, Gomes and Franco to rise in the polls, only to fall back under closer scrutiny of their record and policies.

Will Ms Sarney suffer the same fate? Three-quarters of voters say they trust female politicians more than male ones. Her propaganda portrays her as a mix of glamorous grandmother and Iron Lady. In her two terms as governor of Brazil's poorest state, she has pruned the bureaucracy, while also cutting infant

mortality and raising school enrolments.

But critics will not lack ammunition. Maranhao's social indicators still lag. It is not hard to portray Ms Sarney as a cronyist, like her father. She has given important state jobs to her husband and other relatives. Much of the state's publicity budget goes to the local media owned by the Sarneys. Another doubt concerns Ms Sarney's health: though only 48, she has survived a dozen operations, some for cancer.

Mr Cardoso is still determined that a PSDB candidate will lead the alliance into the election, reckons Mr Guedes. Ms Sarney's sudden rise owes much to the power of television, a well-known name and an attractive face in a huge country where most politicians are barely known outside their local fiefs. But unless Mr Cardoso quickly makes up his mind, and gives his chosen candidate a similar propaganda boost, he might yet find that Ms Sarney's momentum has become unstoppable.

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Cuba and the United States

After the storm

Nov 22nd 2001 | HAVANA
From The Economist print edition

A historic trade deal

IT TAKES a hurricane, it seems, to bring change to Cuban-American relations. In the aftermath of the devastation wrought by Hurricane Michelle earlier this month, four American companies signed contracts on November 21st totalling about $20m to sell wheat and other foodstuffs to Fidel Castro's communist government. Further orders worth perhaps $10m are expected, in the first trade deals between the two countries in 40 years.

The contracts, signed by Archer Daniels Midland, Cargill, ConAgra and Riceland Foods, were made possible by an amendment to the embargo on trade with Cuba, agreed last year by the United States' Congress, allowing sales of food and medicine. But this imposed tight conditions, such as requiring cash payment. Until these were removed, Cuba vowed not to buy “a single gram” of American food.

Then came the hurricane. It killed only five people, thanks to a well-organised civil defence plan which saw 700,000 evacuated. But the worst storm in 50 years cut a path of devastation across the centre of the island. Banana plantations were flattened. Sugar and citrus crops, both important export earners, were damaged. Power and telephone lines came down, roofs were blown off schools and factories, and large areas were flooded.

The government spurned an initial offer of aid from the United States, accepting those from Venezuela, Germany and China, among others. But as the extent of the damage became clearer, it asked American officials to arrange permits to allow it to buy food and medical supplies, at market prices. They promptly did so, for humanitarian reasons.

There may still be obstacles. Cuban ships might be impounded in American ports, so the goods may have to go via a third country. Then there is the anti-Castro lobby in Miami, which claims that the food would help Mr Castro and not his people. It could try to block the deals, though its influence is waning.

Cuban officials say they hope the trade deal heralds a thaw in relations. It may not. But the embargo is no longer total. Many American businessmen would like to see it melt further. As for Mr Castro, as ever he is putting his revolution's survival above all else—even if that means dealing directly with his old enemy.

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Politics in Venezuela

To the barricades

Nov 22nd 2001 | CARACAS
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Rule by decree has stirred opposition

AP

No longer a resounding Yes for Chavez

WHEN it comes to the economy, Hugo Chavez's "revolution" has hitherto been stronger on rhetoric than on action. No longer. On November 13th, just hours before the expiry of an enabling law giving the government legislative powers, the president interrupted television and radio broadcasts to announce the enactment of 49 economic laws. These have achieved the feat of uniting the leaders of both capital and labour against his "revolution".

A score of the laws were rushed out at the very last minute, with no consultation. Two of them, concerning oil and land reform, are highly controversial. Taken as a whole, the measures suggested that Mr Chavez had disregarded calls by the opposition and the private sector to use his decree power with moderation. They represent a deliberate step away from the free market and towards confrontation.

Take land reform. Few deny that some land redistribution is desirable. But the state itself owns much idle land that could be used for this purpose. Mr Chavez's law will enable the government to determine land use, regardless of market conditions. It will also give low-level officials power to seize and re-allocate farms regarded as under-utilised, giving owners just ten days to produce the relevant documentation. Farmers fear that the measure will be used as a means of political patronage and reprisal rather than of social reform.

Critics claim that the oil law will mark the end of a cautious opening of Venezuela's nationalised oil industry to foreign investment. Against a worldwide trend, it increases the royalties paid by private firms, from 16.6% to up to 30%, and requires a minimum 51% government share in any joint ventures. That amounts to *adios* to further private investment, say some oilmen. Similarly, fishing businesses say that new taxes and regulations could kill their industry and cost thousands of jobs.

The measures are "statist, interventionist and loaded with ideological elements," said Pedro Carmona, the leader of Fedecamaras, the main employers' body. His group has called for an unprecedented one-day "strike" against the measures next month. This will have the backing of workers, according to Carlos Ortega, who easily defeated Mr Chavez's candidate in an election this month for the presidency of the main labour confederation.

Mr Chavez dismissed the strike threat, attributing it to "the elites of the old, corrupt political class". He said that he expected protests, since the laws were aimed at helping the poor, not business fat cats. For example, the fisheries law will help small-scale, traditional fishermen. But the new laws will do nothing to stimulate investment, at a time when the price of oil, Venezuela's mainstay, is falling.

Both Mr Carmona and Mr Ortega have denied that the "strike" has political aims. But it comes as the opposition is calling on Mr Chavez to reverse course, or resign. Since neither looks likely, Venezuela seems to be headed for a lengthy period of political confrontation, much of which may be played out on the streets.

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Summitry in Latin America

High on words

Nov 22nd 2001
From The Economist print edition

What use are talk-ins?

WHEN democracy swept across Latin America in the 1980s, it brought with it the summit. In fact, a plethora of them: the fortunate Latin American leader sees his peers annually at the Rio Group and the Ibero-American summit (which includes Spain, Portugal and otherwise-shunned Cuba), not to mention at sub-regional gatherings (Mercosur's presidents meet twice a year). Then there are triennial get-togethers with the United States and Canada, and with the EU.

At each summit (should that be foothill?), the presidents pledge themselves to perfect their democracies, their human rights, their economies and their environment. And then they move on to the next meeting, say cynics. So it is welcome that at this year's Ibero-American summit, to be held in Lima this weekend, the leaders will evaluate whether they have kept their promises.

The record is so poor as to endanger credibility, argues Jose Miguel Vivanco, of Human Rights Watch, a New York-based group. Fidel Castro has nonchalantly signed declarations backing democracy and free speech, for example. The summiteers should be tougher towards Cuba, take action to repeal their own repressive laws (on the press or military justice for example), and take more seriously the Inter-American Convention on Human Rights, he says.

That misses the point, counters Diego Garcia-Sayan, Peru's foreign minister. A secretariat has been set up to monitor detailed summit initiatives, such as in education. Anyway, the summit is not an operational entity, he points out, but a place to share policy ideas. Better that it engage with Cuba than sanction it.

Talking shops can indeed be valuable—especially in a region where distrust of the neighbours often bred small wars. And this weekend the presidents have important subjects to discuss. They will talk about co-ordinating actions against terrorism, and Argentina's economic plight, for example.

Presidential talk is at least cheap—but that is the problem. Unlike the EU's leaders, the Latin Americans do not have a union to run. Until they do, a single annual get-together would avoid summitry becoming a devalued currency—something Latin Americans know much about. After all, what are foreign ministers for?

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India

The trouble with coalitions

Nov 22nd 2001 | DELHI
From The Economist print edition

Having 23 combative coalition partners to please spells chaos for India's prime minister, Atal Behari Vajpayee

Hindu nationalism

INDIAN governments have had precious little success in pushing legislation through parliament or implementing economic reforms since 1996, when shifting multi-party coalitions replaced the Congress Party as the dominant force in the country's politics. This year, rows about issues ranging from corruption over defence contracts to the collapse of the country's largest unit trust have continually disrupted parliamentary proceedings and built up a backlog of more than 40 bills. As a result, the government, led by the Bharatiya Janata Party (BJP), has found it hard to carry out badly-needed changes like cutting subsidies and increasing electricity tariffs, though its privatisation programme is just starting to splutter into life.

A month-long winter parliamentary session that began this week looks like being another time-waster, because the opposition has a new weapon with which to beat the BJP: the Prevention of Terrorism Ordinance (POTO), which the government introduced in the wake of September 11th. Opponents claim the ordinance, which will lapse unless it is passed this session, infringes human rights and will lead to abuse of minorities. They also claim the Hindu-nationalist BJP's main preoccupation is not to fight terror but to win votes in important state elections early next year by showing that it is prepared to get tough with Muslim extremists.

Arun Shourie, minister for disinvestment, says that the government's implementation problems inside and outside parliament stem from “a fractured electorate that leads to a fractured legislature” and from an opposition that has a “perverse concept of what it means to be out of office”—a reference to the BJP's 24-party coalition and to the Congress Party which leads the opposition. As a result, says Mr Shourie, “everyone has enough power to block everything and no one has enough power to see anything through.”

Mr Shourie's point is that the BJP's economic reforms are restricted by pressures from its coalition partners, often encouraged by vested business and other interests which then encourage bureaucrats to delay implementation of policies. Reforms are also opposed by the Congress Party, even though it started them in 1991 and is still cheerfully implementing them in states where it controls the assembly. Similarly Congress threatens to block POTO in the Rajya Sabha, the upper house of parliament where it holds a majority, even though Congress-run states either have their own versions of the ordinance or have supported similar ones.

The government believes POTO is needed to make it easier and faster for the authorities to deal with suspected terrorists and to bypass delays in India's tortuous legal system, where over 2m cases are pending in the courts. POTO bans 24 terrorist organisations, widens the definition of terrorism, increases powers of investigation, makes it easier for courts to refuse bail, and requires journalists to hand over sensitive information. It has led to an outcry from lawyers and India's National Human Rights Commission as well as from Congress—which wants to win the Muslim minority vote in state elections.

The assembly election at the heart of the POTO storm is in Uttar Pradesh. This is India's largest state and has a population of nearly 170m, dominated by Hindus but including a significant Muslim minority. The vote is expected in mid-February and the BJP is likely to lose power. Between now and polling day, all the central government's policies and announcements will be geared to this election. This will affect relations with Pakistan, since the BJP will be wooing the Hindu vote by taking a hard line over Pakistan's encouragement of terrorism in Kashmir.

Economic reforms that would upset important vote banks such as farmers are also being held back, even though little progress has been made on many of the proposals set out in the annual budget last February. Seen against this general background of inaction, the first signs of progress on privatisation are therefore welcome. After failing to find buyers for Air India and Indian Airlines, and running into flak over privatising a bakery and an aluminium company, the government last month sold controlling stakes in two businesses involved in computers and telecoms equipment—with little opposition.

In the past two weeks it has found buyers for eight loss-making and heavily over-manned hotels and is now hoping to sell ten more companies in the next four months, including VSNL, the government's international telecoms and internet operator, and two petroleum corporations. But the opposition is not over: two of the hotel sales have been challenged this week in the courts by local managers, and a supreme court ruling on the validity of the aluminium company sale is expected soon. There is also political, bureaucratic and managerial opposition to the sale of VSNL, which could lead to delays. Life in a fractured legislature, it seems, is not much fun.

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Terrorism in the Philippines

The Jolo conundrum

Nov 22nd 2001 | MANILA
From The Economist print edition

A surprise attack upsets President Arroyo's peace moves

AP

Misuari strikes back

SUCCESSIVE Philippine governments have discovered that Muslim rebel groups are like grey hairs: pluck one out and another soon appears. On November 19th, about 200 suspected followers of Nur Misuari, the former leader of the Moro National Liberation Front (MNLF), broke a five-year-old peace agreement and mounted a surprise attack on army positions on the south-western island of Jolo. The army repulsed the attack with the help of helicopter gunships and warplanes. According to the armed forces, the fighting left at least 100 guerrillas, four soldiers and seven civilians dead.

The attack had little tactical effect. But it was something of a setback for President Gloria Arroyo's strategy of negotiating peace with the bigger rebel movements, while destroying smaller groups of armed Muslims, such as the Abu Sayyaf. The Abu Sayyaf's principal activity is kidnapping foreigners and Christian Filipinos for ransom. Jolo is one of the islands where troops are trying to hunt down the Abu Sayyaf. It is also the home of Mr Misuari, and army officers believe that some of his followers have allied themselves with the Abu Sayyaf.

Mr Misuari signed the MNLF peace agreement with the government in 1996, ending his 30-year-old campaign for self-determination for the Muslim minority in the south of the mainly Christian country. An MNLF splinter group, the Moro Islamic Liberation Front, fought on, but this year also agreed to a ceasefire with the government. That left only the Abu Sayyaf and a handful of other guerrillas-turned-bandits still fighting. Mrs Arroyo's policy is to eradicate the Abu Sayyaf and rescue the dozens of hostages it has taken this year. Since the terrorist attacks on the United States on September 11th, the Abu Sayyaf has assumed an importance out of all proportion to its strength and its limited theatre of operations. The United States, on account of Abu Sayyaf's past links with Osama bin Laden's al-Qaeda movement, now regards it as an international terrorist organisation. During a visit to Washington Mrs Arroyo was promised by George Bush nearly $100m in military aid to deal with terrorism, as well as trade benefits worth about $1 billion.

What, though, should be done about Mr Misuari? As part of the 1996 peace deal he was made governor of an autonomous Muslim region. His performance in this job was a disappointment to both the MNLF and the government. His region is just as poverty-ridden and strife-torn as it was in 1996. This year the MNLF ousted Mr Misuari as its leader, and the government set an election for November 26th to replace him as governor. Mr Misuari called for a boycott of the election and threatened to go back to war; the government disregarded his complaint. The army believes that the attack on Jolo was an attempt by Mr Misuari's supporters to stop the election taking place. The government is now trying to track down Mr Misuari and bring him to trial.

Mr Misuari is thought to command the loyalty of only a minority of the MNLF's guerrillas. The rest seem to be abiding by the peace agreement. That is good news for the government, since the MNLF is recognised by the Organisation of the Islamic Conference as the voice of Muslim Filipinos, and because thousands of former MNLF guerrillas now serve in the army and police. The army has deployed many of these recruits on Jolo and on the neighbouring island of Basilan, where the Abu Sayyaf are holding two American Christian missionaries hostage. It is hopeful that the Americans and other hostages can be rescued soon. An army officer said the rebellion should be put down in a month. One battle on Jolo against suspected followers of Mr Misuari does not make a new war, but it certainly complicates the present campaign.

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Corruption in China

Rocking the boat

Nov 22nd 2001 | SHENYANG
From The Economist print edition

Reformers struggle against the odds

PA

Zhou the campaigner

THE city of Shenyang in north-eastern China has an image problem. Not only is it renowned as a grimy industrial graveyard, it is also notorious for an unfolding corruption scandal involving links between a ruthless mafia boss and the city's former leaders. But the death sentences imposed last month on Shenyang's ex-mayor and his deputy have given the city's most celebrated anti-corruption campaigner little cause to celebrate.

Zhou Wei, a 70-year-old former Communist Party official, was one of the few who dared speak out against Mayor Mu Suixin and Deputy Mayor Ma Xiangdong before their fall from grace late last year. Although Chinese prosecutors say 80% of leads in corruption cases are submitted by ordinary citizens, anyone who publicly accuses a leader still in office of malfeasance does so at considerable risk.

For submitting and organising petitions to the authorities about the corrupt activities of Shenyang's leaders, Mr Zhou was sent off without trial to a labour camp in May 1999. His alleged offence was “disrupting public order”. He regained his freedom in April this year, but only after Mr Mu and Mr Ma, along with more than 120 other Shenyang officials, had been arrested. Mr Zhou then became a hero. Even official newspapers praised his tenacity and bravery.

But Mr Zhou's fame has not ended his troubles, and nor has the downfall of Shenyang's top leaders ended his struggle against corruption. “The corrupt have punished the corrupt,” says Mr Zhou. He believes Mr Mu (whose death sentence was suspended for two years) and Mr Ma have yet to reveal all they know about Shenyang officialdom's connections with the criminal underworld. Accounts in the Chinese media say Mr Mu—once widely hailed as one of China's most savvy reformist officials—and Mr Ma accepted bribes from a mafia boss in exchange for property concessions.

Family members say Mr Zhou is followed by plainclothes police and they believe his telephone is tapped. Officials have ignored his application to regain his Communist Party membership, which was taken from him in 1998 for allegedly organising thousands of people to submit petitions to the government. Far from brimming with gratitude for Mr Zhou's efforts to expose what is often referred to in China as the Mu-Ma case, Shenyang's Communist Party committee is positively hostile.

Last week, the website of the *Shenyang Daily*—a newspaper controlled by the city's party committee—carried a vicious diatribe against Mr Zhou. It accused him of lying, of being a serial violator of public order and of bribing newspapers to publish flattering stories about him. The last point would be difficult to believe for any visitor to his spartan, cramped apartment where he lives with his infirm wife.

Mr Zhou says efforts to stamp out corruption have not been thorough enough. “The new party committee is still promoting corrupt officials,” he said in an open letter this week. He reckons that even though a mafia leader, Liu Yong, was arrested last year along with dozens of associates, others remain at large.

Earlier this month, China's official news agency quoted Shenyang officials as saying that the recent actions against corrupt city leaders had produced “positive changes in social stability and economic development.” In reality Shenyang remains a cauldron of discontent, with among the highest rates of unemployment of any big city in China.

Leaders in Beijing are worried that Shenyang officials might try to block further attempts to root out

corruption in the city and to punish offenders. They have good reason. The former top prosecutor and chief judge of Shenyang are among those implicated in the scandal. That was why it was decided to conduct the trials of those involved in the Mu-Ma case in other cities. Even with new leaders, Shenyang cannot, it seems, be fully trusted.

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Japan's economy

Brewhaha

Nov 22nd 2001 | TOKYO
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Can *happoshu* save Junichiro Koizumi?

AFTER six challenging months in office, Japan's prime minister may feel the need of something a bit stronger than a can of Japan's beloved low-malt beer. The drinking of it, however, is not *happoshu*'s chief attraction. Rather, taxing it could help plug a nasty hole that may soon appear in the government's finances.

Ever since Junichiro Koizumi pledged, in April, to put a cap on government-bond issues for the year ending next March, he has been under huge pressure to spend more freely. On November 18th, Mr Koizumi appeared to snap, signalling to Japan's big daily newspapers that he would, after all, agree to a second emergency budget for the year.

Embarrassingly, Mr Koizumi's reversal has come just days after a group of rebellious anti-reformers from his own party set up a study group to put more pressure on him to spend. This has added to worries that Mr Koizumi's popularity ratings might quickly collapse, should he abandon his bond-cap pledge. Heizo Takenaka, Mr Koizumi's economics minister, had his eyes firmly on the financial numbers this week, suggesting that more government bonds would surely be needed. Masajuro Shiokawa, the finance minister, was making political calculations instead. The bond-cap pledge “must be kept”, he said. As to where the extra money would come from, confessed Mr Shiokawa, he had “no idea right now.”

Some say privatisation could be a source of new revenue, although the uneven progress of Mr Koizumi's own state sales suggests that any extra money may not be available for many budgets to come. Another offer of help could come from Mr Shiokawa's tax bureau, which has fought, though so far vainly, to tax *happoshu*, which dodges the general tax on beer thanks to its low-malt recipe. There are problems: the tax concession is highly popular—and Mr Koizumi's eldest son is the star of a recent television advert for a popular *happoshu* brand.

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Mental health care in Japan

In the dark ages

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Hospitals for the mentally ill badly need to reform

EIKO NAGANO was still at school when doctors first diagnosed her depression. Friends and teachers bullied her, she dropped out of school, and spent years drifting in and out of mental hospitals. At 48, Mrs Nagano has learnt to keep her condition hidden. If people knew, she says, she would lose her apartment, and her children would be bullied as she was. Despite this, Mrs Nagano considers herself blessed: she has her freedom.

Mostly, Japan still treats its mentally ill by locking them up, in brutal hospitals in the mountains. There have been attempts at reform. In 1987, the government passed a law that was supposed to encourage less institutionalisation and more community-based care, following earlier reforms in the West. Yet nothing seems to change. Japan has three times as many mental-hospital beds per person as Britain, and seven times as many as the United States. In America, patients stay in mental hospitals, on average, for eight days; in Japan, for more than 400.

More disturbing are the conditions inside these hospitals. Most of them are privately owned, built with soft government loans in the 1960s and 1970s. Under Japanese law, however, mental hospitals are entitled, per patient, to only one-third the number of doctors and two-thirds the number of nurses that regular hospitals are guaranteed. The mental hospitals' trade association claims that, because of poor funding, its members barely break even. That is a lie, says Toshio Fujisawa, former director of a large Tokyo mental hospital: “They make profits by sacrificing their employees and their patients.”

Wards are sometimes locked 24 hours a day. Access to telephones and other means of communicating with the outside world are severely restricted. Day to day, says Dr Fujisawa, patients are “totally controlled”. “Treatment” is equally primitive. Electric-shock therapy is sometimes used to calm or punish patients, as are isolation rooms. Newspapers carry reports of patients being beaten, of forced abortions, of hospitals without heat or light, and of patients made to work in the name of occupational therapy. On top of their original condition, many of the members of the support group to which Mrs Nagano belongs suffer mentally from their treatment, she says.

Responsibility for this rests squarely with the health and welfare ministry. In the West, governments have cut back on institutionalisation by closing hospitals. Because most mental hospitals are privately-owned, the ministry negotiates with their trade association. This association, which is backed by the powerful Japan Medical Association, is said to have a policy of not losing a single bed. The ministry has agreed with the association to a glacial consolidation of hospital numbers that may eventually reduce bed numbers a little. Patients' rights, meanwhile, are supposed to be protected by local psychiatric review boards. Like the health and welfare ministry's bureaucrats, say critics, these boards are poodles of the hospital owners.

Under such circumstances, the only real hope is that the hospitals will reform themselves. There was a brief flutter of excitement in April 2000 when Tsuneo Senba, a psychiatrist, was made president of the mental hospitals' association. All previous presidents had been hospital owners. Since his appointment, however, Dr Senba's reformist ardour appears to have cooled. It may be that most Japanese still prefer things the way they are, with their mentally ill incarcerated, safely out of sight, in the lonely mountains.

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Kazakhstan

A whiff of democracy?

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From The Economist print edition

Ministers try to stand up to the president

AP

...and Mr Nazarbayev hits back

DEMOCRACY has suddenly become a big topic of discussion in Kazakhstan which, like the rest of Central Asia, is more used to authoritarian rule. The latest burst of excitement has been provoked by the activities of Rakhat Aliev, a son-in-law of President Nursultan Nazarbaev.

Mr Aliev, although trained as a physician, does not have a comforting manner. He was once the head of the tax police and has been the first-deputy chairman of the National Security Service, the successor to the KGB of the Soviet era. As well as discharging his official duties he has links with several industries, though his most important position is as the husband of Mr Nazarbayev's eldest daughter. He had been due to appear before parliament to talk about corruption. But last week his boss, the chairman of the security service, mysteriously forbade him to do so.

On November 15th Mr Aliev tendered his resignation, after which events followed thick and fast. A weekly newspaper, said to belong to him, did not get published. A popular television station, also his, went off the air for two days. Troops of the interior ministry were ordered to tighten security at airports, train stations, power plants and the television tower in Almaty. Mr Aliev seemed to have vanished and was even rumoured to have been put under house arrest. Some Kazakhs recalled articles in an Almaty newspaper, *Vremya Po*, claiming that Mr Aliev was plotting a grab for power.

On November 17th, Mr Nazarbayev put an end to the confusion by appointing Mr Aliev as the deputy head of the presidential bodyguard service—a distinct demotion, which led to quips among the population about who was guarding whom. Whatever plot Mr Aliev may or may not have been involved in, his father-in-law was giving him protection.

A day later, prominent politicians not previously known for opposition activities seized the opportunity afforded by the humbling of a man regarded as having kept a tight grip on the media and on dissent. The deputy prime minister, Oraz Jandosov, announced the creation of a new movement called Democratic Choice and declared that the halting of democratic reforms in Kazakhstan was threatening the future of the country. Its leaders called for the decentralisation of political power and the election of regional governors, now appointed by the president. They were supported by a number of other ministers, the heads of two commercial banks and other notables.

The authorities were not pleased. Such a challenge from inside the established order has become dangerous in Kazakhstan, where the grip of Mr Nazarbayev's political machine has grown steadily tighter since the country's creation a decade ago. The prime minister, Kasymzhomart Tokayev, presumably acting with presidential encouragment, declared that unless the president sacked the rebel ministers—including his own deputy—he would resign himself. He claimed that the real aim of the movement was not to promote democracy, but simply to enrich some of its founders, and it may yet prove that business interests, still to be disclosed, are involved. Mr Jandosov promptly resigned, with several colleagues, and at least one more was sacked.

In accepting the resignations, however, Mr Nazarbayev has deprived Kazakhstan of some of its brightest talent. Mr Jandosov, in particular, will be sorely missed: a former banker with a reputation as a political and economic liberal, he has been one of Kazakhstan's main links with businessmen and investors in the West. The government has felt obliged to insist that members of the new group will remain free to carry

out their activities—freer, indeed, since most of them have just lost their government jobs.

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America, Israel and the Palestinians

When an irresistible Zinni meets an immovable Sharon

Nov 22nd 2001 | JERUSALEM
From The Economist print edition

AP

What hope is there of America's renewed efforts breaking a violent mould?

TEN years ago exactly, a Bush administration in Washington prevailed on a hardline right-wing government in Israel to stop stonewalling and start negotiating peace with the Palestinians. George Bush and his secretary of state, James Baker, believed that if they could just get Yitzhak Shamir, the tough Israeli prime minister, to attend a peace conference in Madrid, the momentum would eventually sweep Israel towards compromises. Mr Shamir, as he later proudly recalled, hoped to drag out the negotiations "for ten years" without giving any ground. Both, as it turned out, were partly right.

It is the "spirit of Madrid" that the present Bush administration's secretary of state, Colin Powell, proposes to capture, as he told an audience in Kentucky this week in an important Middle East policy speech. Then as now the Bushites seemed to have won a war against a rogue regime (Iraq, that time), having kept Israel firmly on the sidelines while cosseting Arab governments to co-operate. Then, too, Israelis and Palestinians had been shedding each other's blood in an *intifada* (uprising) and both were showing signs of tiring.

The analogies are tempting but one key difference needs to be kept in mind. When Mr Shamir fell, nudged by Messrs Bush and Baker, he was replaced by the much more moderate Yitzhak Rabin, the Labour Party leader. But if Ariel Sharon's Likud-Labour unity government is nudged out, an even more obdurately nationalist configuration might well take its place.

Mr Powell and Mr Sharon are both ex-generals, as is Anthony Zinni, a one-time commander of the marines, who has been chosen to prod Mr Sharon—but not so hard that he topples. He flies in on November 25th, together with a veteran diplomat, William Burns, with the mission to help negotiate a ceasefire, and instructions not to leave until the mission is accomplished.

The Kentucky speech was a powerful send-off. With evident emotional commitment, the secretary of state depicted America's vision of Israel and Palestine living side by side within secure borders, in a region of prosperity, tolerance and "respect for the sanctity of the individual, the rule of law and the politics of participation."

More mundanely, Mr Powell set out his demands of the parties. The Palestinians must deliver "a 100% effort to end violence and terror", arresting, prosecuting and punishing the perpetrators of terrorist acts. The *intifada*, said Mr Powell, had become "mired in the quicksand of self-defeating violence...Terror and violence must stop, and stop now."

The Israelis were told that they must, through negotiation, end their occupation of Palestinian territories, with its killing and wounding of innocents and “checkpoints and raids and indignities”. Settlement activity, which “has severely undermined Palestinian trust and hope” must stop, including what Israel calls the natural growth of existing settlements.

Given Mr Powell's blunt words to both sides, General Zinni may well be nonplussed at the disparity of their reactions. Mr Sharon, who says he will not cede any settlements, and proposes a non-viable group of truncated enclaves as an eventual Palestinian state, welcomed the secretary's speech as a “constructive approach”. The Palestinians, although applauding much in the speech, grumbled that they were being required to act immediately while the demands on the Israelis were vaguer and more timeless.

Therein lies the heart of Mr Zinni's daunting job. Mr Powell deliberately avoided a set-piece confrontation with Mr Sharon. His new peace envoy may be expected to do the same, while nevertheless doggedly easing Israel's prime minister towards the negotiating table.

Mr Sharon has dug himself in behind his demand for seven days of complete Palestinian quiet before a formal ceasefire can go into effect, and the machinery of security co-operation between the Israeli and Palestinian forces can be restored. Some in the Israeli peace camp, including Yossi Beilin, believe that this is a calculated ploy to prevent peace talks ever resuming. But even were Mr Sharon's condition to be interpreted more charitably, it is still virtually unfulfillable and presents a major obstacle to any progress.

Mr Zinni's way around it will apparently be to start talking separately with high-level teams of Israelis and Palestinians, and hope for a Madrid-like momentum to build up. Mr Powell announced on November 20th that both Mr Sharon and Yasser Arafat had undertaken to appoint such teams. “My only concern right now is to get the meetings going,” he said. “The two sides can then discuss the conditions and circumstances on which they move forward, so I don't really have to talk at this point to the seven-day issue.”

The Americans are clearly reluctant to create difficulties between Mr Sharon and his far-right supporters. If the prime minister were to fall, his probable successor, according to the polls, would be Binyamin Netanyahu who, at least according to the way he is talking now, is even farther to the right. The left, led by Labour, is in ever-deepening disarray, and likely to be decimated in an election. Public opinion has swung to the right over this past year of *intifada*. Yet a majority still exists that favours, in principle, the two-state solution that Mr Powell articulated in his speech. America's task is to bring that sentiment back to the surface of Israeli politics.

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Iranian liberals on trial

Beleaguered liberty lovers

Nov 22nd 2001 | TEHRAN
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The Freedom Movement is hauled before a revolutionary court

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BEHIND the uncommunicative doors of Tehran's Revolutionary Court, Iran is holding its biggest political trial since the early days of its 1979 Islamic revolution. On trial are some 30 people associated with the Freedom Movement, a liberal opposition party that was founded in the early 1960s as the ideological heir of Muhammad Mossadeq's National Front. So far as is known—and the court reveals little—they are charged not only with “diverting the Islamic revolution” in concert with “foreign and domestic enemies”, but also with treachery, going back to the revolution, when the movement's supporters, misleadingly known as “religious nationalists”, lost out to religious conservatives.

Their trial, which is likely to last for some weeks, is partly a reminder to Iran's president, Muhammad Khatami, that his cautious reach towards political pluralism is anathema to the country's judges. But few of the defendants are directly associated with the president's reform movement. Most of them are less prominent than the 17 mainstream reformists hauled before the courts last year, eight of whom were sent to prison. Several of the current defendants, including two former ministers and a former mayor of Tehran, are well past retirement age.

Until their arrest in the spring, many were regarded as revolutionary relics. But the staging of the trial is, by itself, an admission that the Freedom Movement, after years of quiescence and spasmodic repression, is making a come-back.

In the 1980s, the movement's members made common cause with Ayatollah Hossein-Ali Montazeri, considered at the time to be the late Ayatollah Ruhollah Khomeini's heir, when he criticised the conduct of the war against Iraq. They carried on supporting Mr Montazeri, Iran's most respected theologian, even when he was passed over for the job of supreme leader. They echoed him when he criticised the system that has allowed Ayatollah Ali Khamenei, the current incumbent, to be both powerful and unaccountable.

Some 18 months ago, Ali Reza Rajai, a religious nationalist, was unexpectedly returned in parliamentary elections (though squeezed out by a suspicious-looking recount). Mr Rajai's popularity with the electorate raised conservative fears that the movement, with its liberal and western notions, might prove as dangerous as Mr Khatami's reformists.

In fact, the Freedom Movement's most fruitful alliance has been with the reformists themselves. In the early days of Mr Khatami's first term, his reform-minded regime derived much of its zip from religious nationalists, who were influential in the press and universities. It was thought that they might attract Iranians frustrated by the pace of reform, thus saving the impatient from the embrace of counter-revolutionary groups abroad. Since the religious nationalists were outsiders, and not in the government, they could articulate radical ideas more easily than the reformists.

Now, however, the conservatives see America's hand behind the Freedom Movement, and have set out to disable it. Mr Montazeri has long been under house arrest, and members of his family have been jailed. Some religious nationalists are already in prison. In the short term, such measures seem to have succeeded: the student movement has quietened down, and there is listlessness in the air. But most of the pre-revolutionary 1970s were conspicuous for their listlessness, too.

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South Africa's past

Forgive, don't forget

Nov 22nd 2001 | JOHANNESBURG
From The Economist print edition

Ways of remembering apartheid

AT THE new Apartheid Museum, each visitor is assigned a skin colour and made to enter through a “white” or “non-white” door. Once inside, they can climb into an old police armoured car and watch footage, shot from just such a vehicle, of a township riot. From one ceiling, 116 nooses dangle, one for every political prisoner hanged under apartheid. Encountering a life-size model of a jail cell, visitors can go in and shut the door, to imagine what solitary confinement must have been like.

The museum opens at an opportune time. South Africa's Truth and Reconciliation Commission (TRC) shut its doors this month, after hearing statements from over 20,000 victims and perpetrators of apartheid, granting (or denying) thousands of amnesties and publishing five volumes of testimony. The TRC was considered a success, and other troubled countries seek to emulate it. But a debate drags on over promised reparations for the worst afflicted. Archbishop Desmond Tutu, who chaired the TRC, argues that without “restorative justice”—meaning cash—those who told their stories feel cheated, and those who gained from minority rule can dodge their duty to make amends.

In the meantime, the privately-run museum will, from November 30th, provide South Africans with another way to reflect on their history. Housed in an elegant building next to a garish casino on the edge of Johannesburg, it carries on where the TRC left off. Its director, Christopher Till, hopes that the exhibits will prevent whites from conveniently forgetting the past, and rekindle interest among young blacks, who too often dismiss apartheid as boring “dad's stuff”.

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South Africa's arms deal

Gunning for profit

Nov 22nd 2001 | JOHANNESBURG
From The Economist print edition

A controversial arms deal could be a money-spinner

HONEST enough, was the verdict last week of an official inquiry into a multi-billion dollar arms deal. South Africa's government handled primary contracts cleanly, even if secondary ones were grubbier. A European bidder had already admitted to securing discounts on flashy cars for several politicians. One of these, Tony Yengeni, the ruling party's former chief whip, was arrested in October for fraud, perjury and corruption. And on November 16th, a local bidder for an arms contract, Shabir Shaik, was charged with illegally possessing cabinet secrets on the deal. His brother was the government's chief negotiator for the 1999 deal, but this week was suspended from his job.

More arrests are possible, but the government is sighing with relief. It kept a tight rein on the investigation, by replacing an independent anti-corruption team with three government agencies, and by reviewing the report before it was presented to parliament. That provoked some South Africans to cry whitewash. But no evidence of widespread corruption has been unearthed, and Thabo Mbeki dismissed the critics as racists.

Privately, some officials grumble that nearly $5 billion is a lot for a country with no obvious enemies to spend on arms. South Africa deploys peacekeepers, but they rarely need fighter jets, submarines or other ships.The deal's boosters retort that threats can appear from nowhere, that the equipment could be used against drug smugglers and that the costs will be spread over a decade.

Best of all, they say, the government persuaded the five European arms dealers who won contracts to promise big investments in South Africa. The sum the foreigners must either invest or spend on South African goods is three times as much as the weapons cost to buy: around $15 billion. Some contractors have agreed to buy components from South African firms. Others will set up unrelated businesses.

This week, for example, BAe Systems/ Saab, which won a $2.2 billion contract to supply fighter planes, opened a timber plant, which it says will generate $500m in exports in the next decade. The defence company must create “economic value” worth $8.7 billion, in various projects, by 2011. Other companies are investing in steel, mining-equipment, gold-chain, mohair-jersey and condom factories. They are also buying catalytic converters for cars and electronics for aircraft.

Measuring the value of all this will be tricky. The benefits are clearly substantial: foreign investment and the jobs it creates are needed. But sceptics fear that many of the gains are illusory. “There is no pixie dust—even in the military, somebody is paying,” suggests Joel Johnson of the Aerospace Industries Association in Washington, DC. Either the contracting companies charged higher prices to cover the costs of their extra obligations, or European governments are quietly subsidising the arms sales. Offset investments rarely make money, according to Mr Johnson. What, after all, do submarine-makers know of timber or mohair jerseys?

Nonetheless, many defence analysts regard the deal as a shrewd one, and a number of countries, including Saudi Arabia and Hungary, have tried to copy it. At least some of the offset projects make commercial sense, and South Africa may have won good terms because the companies were hoping for more deals in the future. But it will take many years to assess the full value of the counter-trades, which will be scrutinised long after the eye-catching corruption claims are forgotten.

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Côte d'Ivoire

Absent rivals

Nov 22nd 2001 | ABIDJAN
From The Economist print edition

A formerly stable and prosperous nation is flirting with mayhem

Revolutionary journalism

SOMETHING unusually nasty may be about to hit Côte d'Ivoire. Local journalists certainly think so: on November 20th, the front page of one newspaper accused the president, Laurent Gbagbo, of behaving badly enough to spark a revolution. Relations between the country's main ethnic groups, which were cordial only two years ago, are now explosive. In the slums of Abidjan, the police grab people and demand "money or nationality papers". Suspected "foreigners" who cannot pay have been viciously beaten.

The blame lies with the four big rivals of Ivorian politics, who squabble ferociously. A forum aimed at "national reconciliation" achieved nothing of the sort. Mr Gbagbo was due to share a platform last week with his main opponents, Henri Konan Bédié, (a former president), General Robert Guei (a former coup leader) and Alassane Ouattara (a former prime minister), at the formerly plush Hôtel Ivoire in Abidjan. But two of the big men were conspicuous, like the ice on the hotel's ice-rink, for their absence.

Mr Ouattara, currently in exile, stayed away because the government has refused to give him back his Ivorian citizenship, which was revoked in 1999. Mr Gbagbo has admitted publicly that a constitutional amendment barring anyone with a foreign parent from standing for president had been aimed specifically to thwart Mr Ouattara. Mr Ouattara's supporters, many of whom are descendants of immigrants attracted to Côte d'Ivoire by its stability and prosperity, plan street protests on December 8th. Some Ivorians fear a repeat of last year's electoral violence, during which at least 300 people died.

General Guei, who still refuses to admit that he lost last year's election, is sulking because he is not being treated as a former head of state. To add injury to insult, when his aide-de-camp, Colonel Fabien Coulibaly, came to Abidjan to arrange security for his boss, he was charged with plotting a coup. So the general remains holed up in a small town near the Liberian border with about 400 loyal soldiers.

The government is happy to publicise its opponents' seeming intransigence. In front of a thousand dignitaries, the compère invited both Mr Ouattara and General Guei to take the podium at the appointed time. Then, after a dramatic pause, he announced that the programme would be briefly adjourned. Mr Bédié eventually spoke, but not in a way designed to promote reconciliation. Chased out of office at gunpoint by General Guei in 1999, he recently returned from exile in France. He made a rousing speech to his followers, and then left the building before Mr Gbagbo took the stage.

This farce matters, because the European Union has said it will not resume aid to the government until all parties are included in a debate about the future. The president assured delegates that he had done all in his power to persuade his opponents to join the discussion. But he may not have convinced all the donors.

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European defence

If only words were guns

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From The Economist print edition

PA

The European Union's military ideas are getting bigger. Will it pay for them?

Get article background

OVER the past year, it has become increasingly common to bump into men in military uniform crossing the Rond-Point Schuman, a traffic island which serves as the European Union's spiritual heart. Their presence in Brussels testifies to the EU's efforts to develop a military identity, to bolster its legal and economic power. For years the gibe has been that the Union is an “economic giant and a political dwarf”. Since 1999, however, the EU has been committed to building a common defence policy—with some military clout to back it up. An EU military arm, it is argued, would foster Europe's “ever closer union” and offer a pragmatic response to the possibility that the United States may soon demand that Europeans do more of the security jobs on their own continent, for example in the Balkans.

This week the EU's defence ministers met in Brussels to assess how they are doing. In the wake of September 11th, they toned up the rhetoric. But huge questions remain: are the Europeans really willing to spend the cash to buy enough of the right weapons, and can the political obstacles to a European defence identity be overcome?

To be sure, Europe's leaders are increasingly bold in expressing their military ambitions. When the idea of a common defence policy was first approved, the EU let it be known that it did not intend to be—as a senior general puts it—“in the war-fighting game”. Instead, it set out a series of mostly quite modest aims, such as peacekeeping and the delivery of humanitarian aid, though these were given no geographical limit, and harder military tasks were not ruled out. With its genius for obscurity, the EU labelled them “the Petersberg tasks”, after a hotel in Germany where they were first defined.

This week, however, it became clear that the EU may ultimately have its eye on the war-fighting game. Britain's defence minister, Geoff Hoon, said that his understanding of the Petersberg tasks would include something like the current bombing campaign in Afghanistan, which would fall under the heading of “peacemaking”. Deploying troops there could also be justified under the rubric of “separating warring parties”. As well as drawing attention to this grander possible interpretation of the Petersberg tasks, the EU is also examining whether they should be explicitly revised in the aftermath of September 11th—for instance, say some, by the creation of a team of European special forces. Javier Solana, the EU's foreign-policy chief, will report on this to its heads of government at next month's summit in Belgium.

Such ambitions will alarm those members of the EU who rather liked its previous identity as a pacific

organisation, dedicated to the promotion of trade and the promulgation of regulations. But the immediate question about the new military ambitions is not whether they are appropriate but whether they are achievable. For the fact is that the Europeans are still a long way from building up a military clout that could even remotely match (never say rival) that of the United States.

The problem is both about spending and about the forces' structure. The EU, although it has 375m people compared with America's 280m, spends only about 57% of what America does on defence. What is more, it does not get value for money. Its members too often duplicate each other's work. Many European armies are long on undeployable conscripts and short on crack troops. NATO reckons the Europeans have only a tenth of the readily deployable forces available to the Americans.

So the Europeans have drawn up a wish-list. There is no plan for a standing Euro-army. The idea is just that the Union's 15 members should each promise men and weapons that could be used as part of an EU-flagged operation. Some time ago, 144 specific military needs were identified. This week came pledges of things like armoured infantry, electronic-warfare capabilities and multiple-launch rocket systems. But around 40 of the items on that shopping list have yet to be met, including vital ones like the ability to “suppress enemy air defences” and the provision of heavy-lift aircraft. The row within Europe about the financing and building of a new military transport aircraft, the A400M, has once again cast doubt on Europe's ability to get its military act together.

What is more, as the International Institute for Strategic Studies in London has noted, the EU's defence budgets are on average going down, not up—not least in Germany, the EU's largest country. In a recession, with thinning tax receipts and more pressure to stay within the strict budgetary limits laid down for members of the new single currency, the euro, EU countries will find it hard to change this picture of static or falling defence spending.

The relationship between the European force and NATO also remains a problem. Backers of the European force see a co-operative relationship with NATO as essential to proving that Europe's military ambitions are meant to complement the alliance with the United States, not undermine it. Gaining “assured access” to NATO assets is also necessary. NATO has some 12,000 trained staff officers at its disposal, compared with the 100 or so currently working for the EU. Duplicating NATO's planning capabilities would be crazily expensive, as well as politically provocative.

Cold Turkey

The snag is that Turkey—a member of NATO, but not of the EU—is deeply reluctant to grant the EU assured access to NATO assets, since it fears that an EU force might one day undermine Turkish interests, for example in Cyprus. Many gritty rounds of negotiations with the Turks have so far failed to resolve the problem. EU officials hope they may yet strike a deal in which Turkey would make concessions on military matters in return for the EU advancing Turkey's claims to eventual membership of the Union. But, if a deal is not struck, the EU may just have to settle for accepting access to NATO assets on a case-by-case basis. Which is quite a difference.

Faced with all these unresolved issues, European officials are inclined to take the long view. As one senior diplomat puts it, “A European defence identity was first mooted in 1952, and nothing much happened until 1998. We've made huge strides since then.” Lord Robertson, the British secretary-general of NATO, sees the development of a European rapid-reaction force working alongside NATO as “common sense”, but some problems are inevitable because “it is the biggest single project NATO has embarked on in its whole history, in terms of altering structures and doing something completely different.”

The staff of the rapid-reaction force are being cautious. When it was mooted earlier this year that the EU might send peacekeepers to Macedonia to take over from NATO, the idea was knocked down as too risky for a first mission. The EU's planners would prefer something with more of a humanitarian ring, and less chance of meeting armed opposition. “You can usually rely on there being floods in Mozambique in

February," muses one official.

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Germany's government

Still edgy

Nov 22nd 2001 | NUREMBERG
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Despite winning a vote of confidence, the chancellor is rattled

EPA

Schröder tries to keep grinning

HE MAY have pulled off a big gamble but Germany's chancellor, Gerhard Schröder, still cannot bank his winnings. He has managed, just, to whip his coalition MPs into line over his decision to send troops abroad to help the Americans fight terrorism. But, despite the confidence vote he won last week in parliament, his Green partners are still wobbling—and may make trouble for him again soon. Moreover, Mr Schröder has been badly upset by the loss of his chief foreign-policy adviser—and leading proponent of a more robust Germany abroad—who resigned in absurd circumstances a few days after the vote.

The vote itself was a close call. Mr Schröder got only two votes more than the absolute majority required. But at least his own Social Democrats rallied gamely to his cause. Only one of their MPs voted against the government. And at a party conference in Nuremberg this week, more than 90% of the delegates backed the government's more assertive foreign and defence policies, including its decision to send combat troops outside Europe for the first time since the second world war; a solid 89% endorsed Mr Schröder as party chairman.

But the ruling coalition still looks shaky—thanks to the Greens, who could yet dish it at their congress this weekend. Though only four of their 47 MPs voted against the confidence motion, the rank and file remain bitterly at odds over sending troops abroad. Mr Schröder cannot threaten the Greens with a confidence vote every time some rebel.

Many Greens think their party's very existence is now at stake. The latest opinion polls give them barely more than the minimum 5% to get them into parliament. Thanks to three years in government, their identity has blurred. No longer are they the party of protest. With the government having agreed to phase out nuclear power, many Greens feel that their traditional pacifism is just about all they have left.

Their congress this weekend promises to be as stormy as the one two years ago when they agonised over sending German troops to Kosovo. That time, party delegates did finally accept the argument put forward by Joschka Fischer, Germany's foreign minister and the Greens' star, that they could not stand by and "allow another Auschwitz" in the Balkans. But it is not certain that Mr Fischer will prove as persuasive again.

And if not? He and other leading Green pragmatists might feel obliged to resign; or the party could split; or the Greens could pull out of government. But even if they did reluctantly back Mr Fischer, Mr Schröder might not want to tolerate their unpredictability for ever.

Mr Steiner's demise is a different sort of annoyance for the chancellor, but almost as galling. During a refuelling stopover in Moscow on the way home from a gruelling trip to Asia, his foreign-policy guru lost his temper and called a German soldier an "arsehole" for apparently refusing to serve him caviare. The mercurial Mr Steiner (who is to be replaced by Dieter Kastrup, Germany's man at the UN) says he asked for the caviare in jest. The chancellery has not recently been ringing with laughter.

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France and justice

Changes afoot?

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France's investigating magistrates are accused of being too powerful

THIS week Bernard Bonnet, formerly France's senior representative in the troubled island of Corsica, walked past jeering onlookers to face trial in Ajaccio, the island's capital. His crime? In early 1999, as Corsica's prefect (in effect its governor), he had allegedly authorised five gendarmes to burn down two restaurants illegally built on the island's beaches. The hamfisted gendarmes left behind not just separatist propaganda (to pin the blame on Corsica's gangster-ridden independence movement) but also petrol cans and a radio that belonged to the gendarmerie.

And Mr Bonnet's defence? He was attempting to carry out government policy; and, in any case, there can surely be no crime against property when the property has no legal right to exist. Meanwhile, he blames the prime minister, Lionel Jospin, for his judicial plight “because he initiated and encouraged my lynching by the justice system and the media.”

All of which will doubtless reinforce public cynicism over the interplay between the country's judges, politicians and officials. After all, in the past decade well over 500 politicians and leading businessmen have been investigated or convicted for corruption. Indeed, on the same day that Mr Bonnet's trial began, Mr Jospin himself was interviewed, albeit as a witness rather than a suspect, by a judge investigating financial skulduggery involving the Socialist Party. The following day Pierre Moscovici, the minister for Europe, was likewise interviewed, and Mr Jospin was again in the judicial news, this time refusing to answer allegations of fake jobs for party members in the south-west before he was prime minister. Meanwhile, all that keeps President Jacques Chirac from being questioned over corruption scandals affecting the conservatives is the immunity granted to an incumbent president by Article 68 of the constitution.

Put two and two together and it is easy to rate France as endemically corrupt. In the “corruption perceptions index” published each year in descending order of cleanliness by Transparency International, a Berlin-based campaigner against corruption, France comes a lowly 23rd. But perhaps the arithmetic is only half-right. One reason that so many of the French elite have fallen foul of the law is that investigating judges are now displaying a previously unimaginable independence—which some people say they have abused. For example, the fact is that many of the 600-odd judges, keen to protect themselves from political pressure, leak information to the media—and the media, on the principle that where there is smoke there must be fire, tend to presume guilt.

So too do the public, which is perhaps why, according to a recent poll, only 28% want Dominique Strauss-Kahn, Mr Jospin's former finance minister, to play a big role in public life in the years to come. That poll was taken a week after a Paris court had absolved him of the last of the corruption allegations that have kept him out of office for the past two years. Given that before his resignation he had poll-ratings of around 40%, Mr Strauss-Kahn may well feel bitter at his “lost” two years.

Britain and America have an “accusatory” system in which the prosecution must produce evidence before charging someone, and must in court then prove it beyond reasonable doubt. By contrast, French justice is “inquisitorial”: in their quest for a confession, the investigating judges can keep inquiring without limit and may also (with the permission of a judge appointed for the purpose) squeeze a suspect by jailing him without charge.

Some prominent jurists, such as Dominique Inchauspé, want the system modified by appointing more investigating judges and limiting the length of their fishing expeditions. “We must have the courage to say stop,” he says. The prosecutor-general of the supreme court, Jean-François Burgelin, disagrees: “The investigating judge may have fulfilled his function well for two centuries, but now his day is over.” Rather

than having judges “who purport to be righters of wrongs”, let there simply be a unified prosecution service that investigates, brings charges and prosecutes; let there be a defence; and let there be a judge “acting as a referee”. Such ideas, to French ears, sound fearfully Anglo-Saxon.

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Russia and Chechnya

Jaw-jaw at last

Nov 22nd 2001 | MOSCOW
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A gleam of hope for peace in miserable, war-weary Chechnya

Get article background

FOR a president who once said that the right way to treat Chechen insurgents was to “rub them out in the shithouse”, it is an astonishing volte face. After several weeks of haggling about time and place, on November 18th negotiators representing the presidents of Chechnya and Russia had their first acknowledged meeting, at Moscow's main international airport.

Russia had to swallow hard, having always dismissed its Chechen rebels as mere terrorists on the verge of defeat. The Kremlin's spokesman on Chechnya, Sergei Yastrzhembsky, used to have a particularly fine line in contempt for the Chechen president, Aslan Maskhadov, whom he labelled “a criminal”, “insignificant”, and unworthy of talks “in any circumstances”, except as a defendant answering questions from Russia's chief prosecutor.

The likely reason for the shift is the realisation, probably by President Vladimir Putin himself, that for all their bombast his generals are nowhere near winning the war in Chechnya. Their forces suffer dozens of casualties every month and only shakily control Chechnya's main population centres. Russian soldiers still routinely extort and loot, and stand accused of torture and kidnapping.

The desperate Chechens, who frequently reply in kind, have suffered grievous losses too. They have not managed to inflict a decisive blow against the Russians, and show no sign of being able to do so. Now they face their third exhausting winter in the mountains. Tainted by allegations of association with Osama bin Laden, they are finding it harder to rustle up international support. Mr Maskhadov has distanced himself from his two main radical commanders, Shamil Basayev, and the Jordanian-born Khattab, as well as from Ruslan Gelayev, responsible for a recent raid south of Chechnya's border, in Georgia. Mr Maskhadov's people say that only a handful of Chechens, if any, are fighting in Afghanistan.

The political mess in Chechnya matches the military one: the Kremlin-backed puppet government is divided, weak and discredited, particularly because it is unable to protect ordinary Chechens against licentious Russian soldiers. Rebuilding the shattered republic has barely started.

For the Chechens, Mr Maskhadov has little clout outside his own group of fighters. Some say he spends a lot of time sheltering in neighbouring Ingushetia. His top negotiator is based in Turkey, his spokesman in Paris. It is a fair bet that Chechen civilians want peace, food, heat, medicine and jobs more than independence.

In any event, Chechnya's formal status can probably be fudged or frozen. Mr Maskhadov no longer insists on outright independence at once. The negotiators must now agree to a tricky deal involving simultaneous disarmament by the rebels and the withdrawal of Russian troops, along with a power-sharing arrangement between Mr Maskhadov's lot and the pro-Moscow Chechens, who are now panicking as they sense the political ground shifting. Outsiders may be able to nudge talks along and guarantee a deal. The Chechens would like that; the Russians, so far, would not. And criminals on all sides who profit from the war, as well as hawkish Russian generals and rebel diehards, all share an interest in preventing peace.

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Bulgaria's new president

Up to a point, King Simeon

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The voters were warm for the former king in June, cool in November

AP

They preferred Purvanov

ON THE face of things, Bulgaria's voters are a pretty capricious lot. In a general election in June they handed a big victory to their long-exiled ex-king and a party he had founded just 11 weeks earlier, the Simeon II National Movement. Now they have voted out of office a president who was backed both by the ex-king and by the party that ran Bulgaria before June. He had solved a dangerous crisis on taking office in 1997, and had been popular ever since. Instead, they have elected Georgi Purvanov, a member of the former Communist Party whose daft economics produced that crisis four years ago and which got only a fifth of the seats in this summer's election.

It may not be quite as dramatic a turnaround as it looks. The ex-king and current prime minister, Simeon Saxe-Coburg, was ditheringly late and lukewarm in backing the incumbent president, Petar Stoyanov. Moreover, after plumping for Simeon and drastic change in June, Bulgarians may be hesitant to set the new political pattern in concrete. Besides, it is early days to judge the new government. The ex-king's party was thrown together so hastily, and the summer holidays came so soon after the June vote, that the cabinet did not present its full programme until late last month.

Still, the government's poll ratings, sky-high at first, have dipped markedly in the past couple of months. Some Bulgarians who voted for it in June are plainly disappointed. A package of measures in August doubled child benefit but dashed hopes of an immediate rise in pensions and public-sector wages, and cut income tax in ways that seem to help the rich more than the poor. The government honoured a pledge of zero tax on reinvested profits, but had to back down in the face of the IMF, which also insisted on a smaller 2002 budget deficit than the government wanted. That means less capital investment and so fewer jobs. The fall in unemployment promised by the new government turns out, in its now-published programme, to be a fairly modest cut from 16.7% of the workforce to 12.6% over four years.

There are bright spots. The privatisation law has been amended to eliminate some unwise privileges for management-employee buy-outs. The state-owned tobacco company, Bulgartabac, will soon be on the block, even though vested interests might have preferred a delay. The state telecoms operator will probably be sold, too, albeit for rather little. Energy regulations in the pipeline suggest honourable liberalising intentions. The international markets seem to approve: they have just snapped up a debut Eurobond.

Fine, up to a point. But are the voters impressed? Mr Purvanov's win suggests not. One of his allies in the cabinet, the regional-development and public-works minister, Kostadin Paskalev, is already squaring up to fight for his chunk of the budget. Lined up against him are young pro-marketeers, such as Nikolai Vasilev, a deputy prime minister, and the finance minister, Milen Velchev, both former bankers in the West. Tensions abound in the ex-king's movement, with much fuming about the presidential result.

It remains to be seen whether Simeon can hack it. It has become clear since June that he hesitates, is awkward with journalists, and gets flustered under pressure. It is a shame he could not have been king: he'd have made a good one. And maybe a fair president too. But he has yet to look comfortable as prime minister.

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Charlemagne

Anders Fogh Rasmussen

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A centre-right prime minister for homogeneous, welfare-statist Denmark

THE man without a shadow, you could call him. It's not wholly a compliment. Anders Fogh Rasmussen, the Liberal—that is, just right of centrist—who will be Denmark's new prime minister, seems to have a blameless past: no corruption; no dicey or sleazy friends; no great betrayals, political or personal; for all his striking good looks and charm, no sex scandal; far from it, a marriage of 23 years, three children and no divorce. No big political gaffes either, whereas the defeated centre-left incumbent, Poul Nyrup Rasmussen, has repeatedly fallen over his own feet. Anders Fogh (no kin) is a professional politician to his fingertips.

But just what does he believe in? Mainly, these days, say critics, in winning. In his pursuit of electoral victory, he has steered his party so neatly toward what is, in Denmark, still the social-democratic centre that its free-market principles seem only just to count; and so readily in pursuit of the populist, anti-immigrant froth that dominated the election campaign that his and the party's genuine belief in an open, fair and non-racist society has picked up a good many sudsy grey bubbles on the way.

It was not always so. At 17, Mr Rasmussen helped to found the Young Liberals at Viborg Cathedral School—no swift road to power in those days. “That was my reaction to the events of May 1968,” he says. He rose solidly through the party and in parliament (he was a member at 25) to five years as minister for taxes from 1987 to 1992, which ended in a brush with parliament, the one blot on his record, soon forgiven. But he had to wait till he was 45, in 1998, to become the party's leader—and that mainly because his charismatic predecessor unexpectedly lost that year's general election. On the way, in 1993, he published a book, “From Social State to Minimal State”, a free-market manifesto which defies any charge that his whole life has been one long career of trimming and tacking; not in welfare-statist Denmark. Mr Nyrup Rasmussen tore pages from it and threw them, literally, as darts during the electoral campaign just ended.

They damaged only the thrower. That illustrates one secret of the Liberals' success this week. They didn't so much win the election as let the centre-left lose it. Time for a change, they cried. But to what? Were they to frighten the voters? Not they. They want the private sector involved in the welfare state, mainly for the familiar cost reasons, with a little freedom of choice thrown in. But not for a moment did they suggest, Thatcher-like, that what they'd really fancy would be to pull the whole structure down. One, they don't. Two, they knew full well that Danes are addicted to its old and familiar shape. With some reason: it works pretty well. Britons might envy the Danes' much-heard complaint against public health care, that too many people have to wait three months to get hospital treatment.

No, just as in Britain Tony Blair's reinvented Labour Party is busy proving it can run capitalism better than the Tories, so Denmark's Liberals argued that they could manage the welfare state better than the Social Democrats. The parallel—mirror-image, rather—is no accident: the Liberals' Mr Rasmussen admires Mr Blair's savvy, even using a crafty ex-journalist as his spin-doctor.

And a racist, too?

So far, one could say, so banal: a politician has done well what parties pick their leaders to do, win power. But something more significant has been going on in Denmark these past weeks. The campaign pulled out into the open an issue that most politicians for 15 years had tried to keep under wraps: immigration, and its effect on the core values of Danish society. The one politician who wouldn't co-operate was Pia Kjaersgaard, leader of the Danish People's Party, and a cross—in some Danish eyes—between Austria's Jörg Haider and a polecat.

She co-founded the party in 1995. It has plugged the issue forcefully: its propaganda is full of sinister Muslims sapping the cohesion of the true Denmark. And it works: Ms Kjaersgaard's party got 7.4% of the vote in 1998, 12% this time. It is seen as so far beyond the pale that Mr Rasmussen this week said flatly that it would have no place in his government (necessarily a coalition, given Denmark's proportional electoral system). But he also knows that he will often need the party's support from outside—and that 45% of Liberal voters and 35% of Conservatives, their closest allies, told an election-time opinion poll they saw no objection to immigration policy reflecting some of Ms Kjaersgaard's ideas.

That is no accident: Denmark has been a strikingly homogeneous society. Well out into the centre-left, few politicians see merit in multiculturalism. What they want is assimilation: let the immigrants be any colour, but let them think and act like decent Danes. That's easier said than done if you are brown-skinned, of Arabic mother-tongue and Muslim—and if many of the People's Party's working-class voters, especially since September 11th, dislike those features, adding accusations of spongeing and planning to import some other layabout from Baghdad with the excuse that he is to marry your daughter.

Ms Kjaersgaard is in fact no Haider; partly for that reason, she has dragged the main politicians in her wake, Mr Rasmussen included. “My greatest ambition”, he said this week, was to take the heat out of this debate. The Liberals' motives, he says, are different: they fear that the costs may break the welfare state. But the remedy will be much the same: tighter immigration rules, a seven-year wait before full access to social benefits, more work—over half of Denmark's third-world newcomers are unemployed, against 5% of Danes in general—and less welfare.

That, with hindsight, may prove to be the European significance of this election: not that in one corner of the continent nine years of centre-left rule were ended but that an eminently decent European society had to face head-on, albeit amid half-truths and hyperbole, a question that faces many others: in this era of mass migration, what does it mean to be European?

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National Health Service

Walking wounded

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Labour's reforms are too slow and too timid to "save" the National Health Service

Get article background

REMEMBER Mavis Skeet? How about Sharron Storer? They may be less photogenic than Osama bin Laden, but you can bet Tony Blair does. Mrs Skeet was a pensioner whose surgery was cancelled four times until her cancer became inoperable. And, in one of the soporific election campaign's rare moments of drama, Ms Storer berated Mr Blair about her partner's hospital treatment.

Labour was elected in 1997 on a melodramatic promise to "save" the NHS. This rhetoric exaggerated both the problems and Labour's competence to solve them. The NHS still provides high quality health care at an enviably affordable price. On the other hand, patients exercise too little choice about their treatment, and too many of them wait an insultingly (and sometimes dangerously) long time for it. In 1997, Labour had little idea how to cure this malaise. More than three years later the government released its salvation plan. Essentially, it wants the NHS to treat more patients, and treat them more like consumers than as the meek recipients of the state's munificence. On both counts, progress is painfully slow.

Compared with its predecessors, the government is now injecting a lot of money into the NHS: spending will grow by more than a third in real terms in the five years to 2004. A review of future pressures on health spending, to be published with the pre-budget report next week, will probably make the case for even more cash. This will help Alan Milburn, the health secretary, in the debate reportedly exercising the cabinet about whether to concentrate resources in the lean times ahead on the public services, or on the ingenious tax credits favoured by Gordon Brown, the chancellor of the exchequer.

The trouble is that the NHS is not doing the extra business to justify the extra cash. In 1997, Labour promised to cut 100,000 people from the list of those waiting for hospital treatment in England. The target was just about met—though by foul means as well as fair. Even so, the total number of people waiting is still stuck at just over 1m, and was higher at the end of September—after a massive spending boost—than it was a year previously. The number of people waiting more than a year to get into hospital is falling, but the number waiting more than 13 weeks to see a consultant in the first place is now going up. The Audit Commission recently reported that average waits in casualty departments are also lengthening (for which Mr Milburn crassly blamed hospital managers).

The government's new targets concern waiting times rather than lists. By 2005, nobody is supposed to wait more than six months to get into hospital. Meeting the targets will mean pushing more patients through the system, but government figures show that the number of elective (ie, non-emergency) patients admitted to NHS hospitals is not rising. And, using government statistics, Julian Le Grand, of the London School of Economics, has calculated that the efficiency with which resources are used improved in the eight years to 1997 and has declined slightly since.

Much of the extra cash has been spent on sensible things such as paying off hospital deficits and hiring more nurses; and on pay rises, drugs and initiatives to tackle heart disease and cancer. It is also true that the government cannot simply conjure new doctors—of whom Britain has comparatively few—out of thin air, which is why it wants to entice more foreign ones to the NHS. But it is a little disingenuous for ministers to complain about public impatience for results, when they have done so much to foster it. The

same sluggishness characterises Labour's efforts to introduce more choice for patients—and its corollary, competition among providers.

During Labour's first term in office, the tendency of its reforms was towards yet more centralisation. It has grouped the purchasers of hospital treatment—the general practitioners—into Primary Care Trusts, which will soon control the bulk of the NHS budget, but which are poor at negotiating with hospitals on behalf of their patients. It also created a bemusing network of regulators. The stream of Maoist micro-revolutions—perpetual and authoritarian—alienated many doctors.

Now the government says that, having done the necessary centralising, it wants to liberate doctors and patients, enabling more choice and “contestability” (a euphemism for competition). Good hospitals will get greater autonomy, and more NHS patients will be treated privately. Private companies will be able to run some new clinics, and foreign hospitals may be invited to set up shop in Britain. Meanwhile, patients are getting the right to book the date of their operation. Mr Milburn talks wistfully of giving every patient the right to choose their hospital, where currently they exercise little or none.

But giving patients real choice, and hospitals the ability to respond to it, would involve far more radical change than the government seems willing to embrace. To be fair, with the system as stretched as it is now, choice is bound to be limited, and a tax-funded health system can never operate like a perfect market. Even so, the government seems to view choice and competition as threats to help lever up standards, rather than virtues in themselves.

The precedent of Winston Churchill—who won the war, but lost the 1945 election—has been much cited since Mr Blair hurled himself into the war on terrorism. The Labour government that succeeded Churchill gave the NHS to a grateful nation. Now, the NHS is becoming less an asset to Labour than a liability. Still, a government with an enormous majority ought to be able to undertake the structural reforms that, along with the cash, are necessary to meet rising expectations. Otherwise, both Labour and the NHS will be discredited.

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Spies

Psst: wannabe a spy?

Nov 22nd 2001
From The Economist print edition

Britain's three intelligence services are heading for rapid expansion

“RECRUITMENT in specific languages varies according to need,” says MI5's website. “At present there are vacancies in the following languages: Farsi, Turkish, Urdu and Arabic.”

While spies are being blamed for allowing September 11th to happen, they are also among its main beneficiaries. Britain's three intelligence services, which were previously under pressure to contract because of the end of the cold war, are busily expanding their empires. “It's the biggest bonanza the spies have ever had,” whispers a Whitehall observer.

The Secret Intelligence Service (MI6), whose operations are overseas, the Security Service (MI5), which deals with domestic counter-intelligence, and the government's communication headquarters (GCHQ) are engaged in their biggest recruitment drive for more than half a century. They have already been given an immediate £15m ($22m) post-September 11th cash injection, and have now put in large bids for extra funding next year on top of the £2.8 billion already agreed for 2001-04, confident that they have an irresistible case. The indications are that the bids are being favourably reviewed.

MI6 is planning to triple its graduate intake from about a dozen a year and is hoping to recruit to its Intelligence Branch from a much wider pool than previously, with more ethnic-minority applicants. It wants Muslims and those who speak Middle Eastern languages in particular. MI5 plans to increase its annual fast-stream graduate intake from 25 to 40. There is no shortage of applicants. A recent advertisement for general intelligence officers drew 6,500 applications for 12 posts.

About a fifth of MI5's £150m annual budget is currently spent on countering international terrorism. That proportion is likely to increase with smaller amounts being spent on the IRA (31%) and counter-espionage (21%). All three services are beefing up their clerical, support and information-technology staff. A new anti-terrorist finance unit within MI5 is to use advanced computer technology to track the complex web of global money laundering.

Will all this extra money actually improve performance? David Bickford, a former legal adviser to the security services, has publicly criticised their costs as excessive, and called for a merging of their operations. He claimed there was “triplication of management, triplication of bureaucracy and triplication of turf battles”. Sir Rodric Braithwaite, a former chairman of the Joint Intelligence Committee, appears to share some of these views. In an article in *Prospect* magazine, he noted that Britain still spends substantially more on the intelligence services than her continental allies. He added: “The task for the British public is to ensure that they remain competent, relevant, under control and reasonably cheap.” That, as he also rightly pointed out, is no simple task.

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Red tape

Trading places

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Has red tape really made Britain the worst country in Europe to trade with?

BRITISH businessmen have long moaned about the rising burden of regulations since Labour took office in 1997. This week they found an unexpected ally. The European Commission, usually demonised as a prime agent of over-regulation, unveiled a business survey that put Britain in the dock.

The poll of over 4,000 European companies found that "burdensome regulatory requirements" affecting exports and sales made Britain the most difficult country to trade with in the EU. Echoing the complaints of British businessmen about Whitehall's tendency to "gold-plate" European directives, the survey also established that the British government was the poorest at enforcing legislation sensibly.

Point-scoring
Ranking of ten European countries

Country	Regulatory environment	Overall business environment
Finland	1	3
Portugal	2	10
Netherlands	3	1
Ireland	4	4
Germany	5	5
Denmark	6	6
Spain	7	8
France	8	7
Italy	9	9
Britain	10	2

Sources: European Commission; Economist Intelligence Unit

The poll hit a nerve. Not only did it play into the hands of the government's political and business critics. It also neatly reversed the usual state of affairs in which British spokesmen scold their European partners for their constipated markets and suggest the laxative of the "third way". But just how accurate a picture does it present?

The main gripe for businessmen across the EU, according to the survey, was the need to ensure that products conform to national requirements, a largely technical issue. However, this was followed closely in both Britain and the rest of Europe by employment and working conditions. This latter concern chimes in with the principal complaint of British businessmen about red tape. Employment legislation has become more and more onerous as Labour has implemented new regulations such as the working time directive (from Europe), and new rights for consultation through works councils (again from Europe). Altogether, the total cost of new employment legislation since 1998 adds up to over £12 billion, according to the CBI.

Even so, Britain's labour market is usually rated as one of the most flexible in Europe largely because of reforms introduced under Margaret Thatcher. These reforms allowed the economy to operate at lower levels of unemployment without generating a wage explosion. Britain's improved labour-market performance is one of the main reasons why the upswing from the recession of the early 1990s has been sustained for so long.

But regulation is only one of a number of factors companies take into account when assessing the relative attractions of countries for business. And, on several counts, Britain scores highly as a place to do business within the EU. It is still a magnet for foreign direct investment in Europe. The City continues to thrive as a centre for international finance. In the immediate future, Britain can offer the added advantage of an economy that looks set to weather the global recession better than the euro area, according to this week's forecast from the OECD.

A global scorecard by the Economist Intelligence Unit (a sister organisation to *The Economist*), which considers 70 factors, ranks Britain as the fourth most attractive country in the world to do business in over the next five years. Within the EU, the Netherlands wins, but Britain comes top on its policies towards private enterprise and competition.

Yet the government would be unwise to disregard the European Commission's survey. Businessmen give credit to Labour for its management of the economy. But they are vexed about a seemingly endless flow

of new regulations that entangle them in more and more red tape.

The government has responded by insisting on stricter “regulatory impact assessments” of legislation. Each relevant department now has a minister for regulatory reform who reports to a panel chaired by Lord Macdonald at the Cabinet Office. A new act allows the simplification of past regulations that have accumulated in higgledy-piggledy fashion. The measures show good intent, but regulation still threatens to damage Labour's claim to be a business-friendly government.

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Triumph

Paunch power

Nov 22nd 2001
From The Economist print edition

Triumph motorbikes are flourishing again thanks to middle-aged bikers

WHEN Marlon Brando led a group of outlaw bikers in the 1950s film, “The Wild One”, he rode a Triumph. It was the obvious choice back then. Britain was the biggest motorbike maker in the world and Triumph was winning every race in sight. But after bad management and botched rescue attempts by successive governments, the firm crashed. Now the marque is back, starring in films like “Mission Impossible 2” and wooing outlaw Americans away from their Harleys.

The credit for Triumph's rebirth goes to John Bloor, a builder who bought the company's remains in 1983. He has invested £80m ($115m) on, among other things, a new plant in Leicestershire. The product has been completely revamped. New engines were crucial. Most of them have a distinctive three-cylinder lay-out, which makes them more powerful than the two-cylinder bikes made in Europe and America, and more relaxing than the high-revving four-cylinder bikes made in Japan.

Three-cylinder engines are perfect for the middle-aged men who are getting back into bikes. Big-bike sales have doubled in Britain over the past five years, and the buyers are no longer youngsters needing cheap wheels, but older people with the money to spend on expensive toys. Many of these born-again bikers haven't touched a motorbike since their teens, and find Japanese offerings just a bit too fast and flash for their taste.

Triumph's sales have risen from 2,000 in 1991 to 33,000 today—tempting thoughts of the old Triumph's peak of 50,000 in the late 1960s. Most buyers now are aged between 35 and 55. American sales (which make up 25% of the total) have soared since Triumph introduced a retro-styled bike, called the Bonneville, last year, and are now rising at an annual rate of 40%. The launch of a Harley-style cruiser bike at last week's motorbike show in Birmingham should boost sales further.

But Triumph, which sells a sixth as many bikes as Harley Davidson, is still a midget. Being small makes it hard to develop new bikes or to buy good components at a decent price. To maintain quality, Triumph makes about a third of its components in-house, and imports many from Japan. That clobbers profits. Last year, Triumph lost £3.3m on sales of £106m. Mr Bloor's building business, which nets £30m a year, can cover those losses, but that is not a long-term solution.

Growth should be. Sales are rising by 15% a year, putting Triumph within sight of European rivals such as BMW and Ducati. Bruno Tagliaferri, Triumph's marketing manager, reckons there is plenty of scope for growth in America, where 250,000 big bikes are sold each year. Triumph currently accounts for less than 5% of that, compared with 12% of the British market. To grab more, it needs to exploit not just its classic name, but also its old race-winning reputation.

That is why there are persistent reports that Triumph is developing a new racing bike. The firm denies the rumours, but they make sense. It is still a famous name in the racing world and it needs the publicity that racing would generate. Face it: the young Mr Brando would not have ridden a retro British bike. But a racing Triumph would suit him rather well.

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Biotechnology

Drugs high

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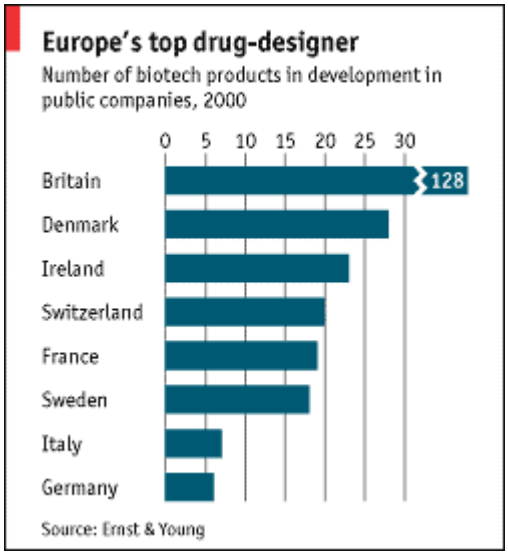
Biotechnology is thriving in Britain, but there are hazards

LAST year Acambis, a vaccine-maker in Cambridge, received an order worth $340m to make, test and stockpile 40m doses of smallpox vaccine for the American government. Since September 11th, the order has increased to 54m jabs, and the company will soon hear if it has won a contract to supply another 250m. Meanwhile Powderject, a vaccine firm based in Oxford, has boosted its production of anthrax vaccine—normally used to protect the British military—and has also moved into producing smallpox vaccine. The makers of diagnostic kits and antibiotics are flourishing too, as governments rush to boost their civil defences.

Britain's biotechnology industry in general, not just the anti-bioterrorism brigade, is doing well in today's straitened circumstances. According to a new report from Ernst & Young, an accountancy firm, although initial public offerings have all but dried up, Britain's 250 privately-held companies have had little trouble obtaining private financing, as venture capital for biotechnology has flourished and drug firms have been eager to form alliances. In the first half of this year, £160m worth of private equity went into British biotech firms, compared with £170m for all of last year. Publicly-traded shares in British biotech companies are holding their own against America's much bigger and older biotech sector, and outstripping their continental rivals: shares in German biotech firms, for example, have fallen 54% so far this year, while British ones have fallen by around 20%.



Glenn Crocker, author of the Ernst & Young report, reckons that after 20 years of development, Britain's biotech industry has finally come of age. Britain has long had first-rate science, but turning this into a money-making proposition has not been easy. Drug-making is a long and costly process. However, the British firms which have survived this long haul now have real products, not just bright ideas. This has been a bumper year for product approvals for British biotech firms by drug regulators in America and Europe—eight so far—including some potential money-spinners such as a new anti-migraine medicine from Vernalis, a firm based in Wokingham.

Companies which lost money in their youth building their research and development programmes have now turned profitable. After years of trouble finding good managers, a new cadre of “serial” biotech entrepreneurs has emerged, who bring the valuable experience of success, and failure, in previous biotech businesses to new ventures.

While a few firms have come unstuck over drugs faltering in clinical trials, a solid core of big, successful firms such as Celltech and Shire is reassuring investors that Britain's biotechnology sector is a better long-term bet than, say, Germany's less mature, and less profitable, industry. Dotcoms may come and go, but people always need drugs, and big pharmaceutical firms need their smaller biotechnology brethren to do much of the basic research for their future products.

That said, Ian Gibson, chairman of the House of Commons committee on science and technology, worries that broader social and political developments may be sending out a signal that biotechnology—supposedly at the centre of the “knowledge” economy the government is so keen on—is not entirely welcome in Britain. A High Court ruling on November 15th, for instance, has had the effect of blocking moves to allow “therapeutic” human cloning, for the purpose of research into potential treatments for

Parkinson's disease, diabetes and a host of other ailments. On November 22nd, the government published new legislation permitting therapeutic, but explicitly outlawing reproductive, cloning.

More disturbing is the hounding of Huntingdon Life Sciences, a drug testing firm, by animal rights activists who have terrorised its staff and frightened off bankers and investors. This is not only inconvenient for biotech companies which use Huntingdon's services; it also raises concerns among companies that they might become tainted by association and find themselves in the activists' sights. Recent government moves to protect investors and clamp down on malefactors have been welcomed by people in the biotechnology industry; but the government has moved slowly, and the protestors are fast and determined.

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Broadband

The price is wrong

Nov 22nd 2001
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Why Britain is so far behind in broadband Internet access

THE government is notoriously fond of setting targets. It is even more notorious for failing to meet them. Take its plan to create “Broadband Britain”, by blanketing the country with always-on, high-speed Internet access. The goal is to have “the most extensive and competitive broadband market in the G7 by 2005”. The reality, according to figures from the OECD, is that Britain has fewer broadband connections per head than any other G7 country. Among the 30 OECD nations, Britain is 22nd, behind Iceland and Austria.

Admittedly, things are not as bad as they were. The number of broadband connections in Britain tripled in the first six months of this year. Since January, Britain has succeeded in overtaking the Czech Republic in the OECD's league table, and has left Mexico and Hungary well behind. But other countries are growing even faster. Why is Britain so far behind?

There are two kinds of broadband on offer in Britain: digital-subscriber line (DSL) connections, which supercharge existing phone lines to enable them to carry high-speed data, and cable connections, which transmit data over cable-television networks. This means that customers face a choice between a DSL connection from BT (or one of the firms that resells BT's DSL service) or a cable connection from their local cable operator, in areas where it is available. In theory, the resulting competition ought to drive down prices and encourage adoption.

But such competition has been slow in coming. Britain's two cable operators, NTL and Telewest, were formed from a hotchpotch of smaller firms, many of whom used different technologies to build their networks. The resulting mess means that broadband is available in only a few areas. And since one-third of British homes do not have access to cable at all, there has been little pressure on BT to push DSL.

In March the government set up a task-force, the Broadband Stakeholder Group, to investigate. Its report was delivered in September. It placed much emphasis on the need to create a virtuous circle in which broadband content would stimulate adoption, in turn stimulating the development of new content. The government is expected to announce its response next week. It seems to have bought the argument about content: a summit has been arranged in December to address the challenge of developing broadband content.

Yet the idea that it is lack of fancy content that is holding back broadband in Britain is bogus. Users do not want new content: they simply want their current e-mails and web pages to download faster, as they do at the office, where high-speed connections are commonplace. There is a much simpler explanation for the lack of enthusiasm for broadband: high prices.

Figures compiled by Sam Paltridge, an analyst at the OECD, show that at $60 (£42) a month Britain is one of the most expensive countries in the world for DSL (see chart). Only when the price goes below $40, he says, does demand take off: “Get it below $30 and it really takes off.” Broadband cable connections in Britain have grown much faster than DSL connections this year. Cable overtook DSL in June. A broadband cable connection costs £25 a month.

To his credit, the e-commerce minister, Douglas Alexander, has noticed this problem. Mr Alexander, whose sister is the Scottish Executive's e-minister, was appointed in June. When the

Broadband Stakeholder Group issued its report, he brushed its findings aside and called on BT to set “fair prices aimed at bringing broadband to the mass market”.

BT argues that it cannot cut DSL prices because Oftel, the telecoms regulator, will not let it. BT is supposed to allow competing firms to sell services over its wires, in a process called “local loop unbundling”. So far, this has been a flop, because BT has made life as difficult as possible for its would-be rivals, most of whom have given up. Oftel is worried that if BT cut its DSL prices, it would make life even harder for competitors.

In short, prices are high because BT is a monopoly and faces little competition. But BT cannot cut prices, because it is a monopoly and faces little competition. Somehow, that sounds wrong.

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Terminal 5

Call that a decision?

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Londoners still don't know what's going to happen to Heathrow

AT LAST, after years of dithering, the government's approval of a fifth terminal for London's Heathrow Airport represents a clear decision about the future of aviation in the capital. Well, no, actually. It represents another contradictory fudge.

The transport secretary, Stephen Byers, told Parliament that he has accepted the recommendations of the planning inspector, Roy Vandermeer, who concluded after four years' investigation that Terminal 5 should be approved, subject to two conditions—a cap on flight numbers and stricter controls of noise levels.

Mr Vandermeer said that flights into Heathrow should be restricted to 480,000 a year—just over 4% above their current level. Mr Byers says the restriction will be written into the planning agreement. Yet he is refusing to rule out the possibility of a third runway at Heathrow, which would inevitably mean a huge increase in flights. When challenged in Parliament, he avoided committing himself either way, saying that a decision on a third runway would have to wait until his aviation white paper due next year.

Mr Byers's reluctance to call a halt to Heathrow's expansion, despite being urged to do so by BAA, the airports authority, casts doubt on the value of his acceptance of a cap. It also flies in the face of the inspector's conclusions. After listening to more than 21m words of evidence during the course of his inquiry, Mr Vandermeer concluded that a third runway at Heathrow would have “such severe and widespread impacts on the environment as to be totally unacceptable”.

Even if a third runway at Heathrow is eventually ruled out, environmental campaigners are understandably suspicious that the new 480,000 annual cap on flight movements will be breached. When Terminal 4 was given the go-ahead in 1978, the planning inspector, Ian Glidewell, approved its development on condition that it would be the last big expansion at Heathrow. In a recommendation accepted by the then government, he said that flights should be limited to 250,000 a year. That was soon forgotten. Last year there were 460,000 flights.

Pressure on Heathrow increases doubts over the latest cap. Even with Terminal 5, it will not be able to meet future passenger demand. The inspector concludes that between 118m and 143m passengers a year will want to use Heathrow in 2016, far exceeding its planned capacity of 90m.

If the cap sticks, however, it is doubtful whether the economics of Terminal 5 will make sense. Whether it does or not depends on BAA's claim that new larger planes will allow them to increase passenger numbers by 30m a year despite being allowed only 4% more flights.

Mr Byers has also failed to make a clear decision on night flights. A decade ago, when the previous inspector, Graham Eyre, rejected a new terminal at Heathrow, he said that night flights were “a particular curse” and recommended that they should be banned. Since then night flights have increased by more than a third. Mr Vandermeer does not go as far as his predecessor but accepts that “Heathrow causes substantial sleep disturbance and significant annoyance.”

Mr Byers has delayed action on the inspector's recommendation that night flights should be more strictly controlled, saying that he is legally obliged to seek advice. All very well—but the lengthy two-year period he has allowed for consultation hardly smacks of firm government. If ministers at this stage in a Parliament with a huge majority behind them are unwilling to take awkward decisions, when will they feel brave enough?

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Bagehot

Slipstream diplomacy

Nov 22nd 2001
From The Economist print edition

What Tony Blair's war could do for Britain

ONE month after the felling of New York's twin towers, just before the United States began to drop bombs on Afghanistan, Tony Blair said that the events of September 11th marked a turning point in history. “The kaleidoscope has been shaken,” he said. “The pieces are in flux. Soon they will settle again.” Six weeks on, the pieces in Afghanistan have still not settled. But it is at last becoming possible to debate the outlines of what the shaking of the kaleidoscope might mean for Britain.

When Mr Blair squints through the kaleidoscope now, what does he see? Something like this. He has so far had a “good war”. As a result, Britain walks taller in the world. The speed with which he joined the military action, the fact that he had serious armed forces to deploy, his empathy with America's pain—all have lent substance to the special relationship that Britain claims to have with America. Better still, standing beside America has caused no rift with Europe. On the contrary, asserted Mr Blair in another speech last week, the Afghan war had “buried the myth that Britain has to choose between being strong in Europe or strong with the United States”. Both the United States and the European Union, he said, valued Britain's closeness to the other. Furthermore, the aftermath of September 11th gives Britain an opportunity for influence far beyond Europe. Recent events, he says, have vindicated the doctrine he set out in Chicago during the Kosovo war, arguing that the western democracies had a duty of humanitarian intervention in misgoverned countries all around the world.

It is a beguiling thought: Britain has lost an empire but has found Mr Blair. But would an independent observer look through the same kaleidoscope and see things that way too?

Perhaps not. Mr Blair has hardly put a foot wrong since September 11th. But walking taller in the world implies some freedom of manoeuvre in foreign policy, and nothing yet proves that Britain has more of this than it had before. From the moment the terrorists struck, Mr Blair aligned his policy with that of George Bush. Even if that was the right thing to do—and Bagehot thinks it was—it means that Britain's scope for independent action in the world has not been put to the test by this crisis. Having followed faithfully in the slipstream of the superpower, Britain is entitled to a share of the glory, but not to exaggerate its own useful but inessential contribution. The stark truth is that if Britain did not exist, the history of Afghanistan after September 11th would probably have been no different.

What is more, when Mr Blair has appeared to try in small ways to strike out on his own, he has either got nowhere or run into trouble. For all of the prime minister's recent travels around the Middle East, no Blairite fingerprints were visible in this week's speech by Colin Powell, the American secretary of state, which reiterated America's familiar positions on Palestine. Britain takes a more robust view than America of the need for western forces to restore order in a post-Taliban Afghanistan. Clare Short, the minister for overseas development, has openly criticised America over this. But Britain has not yet been able to impose its preference. The thousands of troops it had hoped to airlift to Kabul had yet to arrive by the middle of this week, and even the advance party of mainly British soldiers at Bagram airfield came under pressure to withdraw. A serious test of the extent to which Britain is walking any taller in the world will not come until fundamental British and American policies diverge, as they might if Mr Bush decided that his next exploit after Afghanistan ought to be a full-scale war against Iraq. Until then, the verdict on walking taller ought to be “not proven”.

Switchboard operator

Not proven, either, is Mr Blair's contention that the war has buried the “myth” that Britain must choose between America and Europe. Most EU leaders value having a member who enjoys the trust of the

American president. If they did not, fewer would have gatecrashed the council of war Mr Blair arranged over dinner recently for the leaders of France and Germany. But this will not stop some of them resenting what they still construe as Britain's divided loyalty. Henry Kissinger once asked whom the Americans were supposed to telephone when they needed to discuss a foreign crisis. It was in part to answer this question that the EU has taken tentative steps towards a common defence and foreign policy. However handy it has been to use Mr Blair as a cross-Atlantic switchboard operator in recent weeks, this forms no part of any mainland European's long-term plan for Britain.

When Mr Blair said that September 11th had changed the shape of politics like the shake of a kaleidoscope, he had in mind the change in global politics. Events in Afghanistan and beyond could still prove him right. But on present evidence, it is legitimate to wonder whether, once the pieces settle, Britain's place in the world might not look rather the same as it did before. Indeed, September 11th may have a more lasting impact on Britain's domestic politics than on its foreign relations.

If for no other reason, this is because the war has reinforced the worries of those who say that all is not well with Britain's democracy. However limited Britain's freedom of manoeuvre in the world, Mr Blair's freedom of manoeuvre in Britain has been unconstrained, which is of course one reason for his “good war”. Unlike, say, Germany's chancellor, Mr Blair has no awkward coalition partners slowing down his decisions to put troops in harm's way or to ram laws harmful to civil liberties through a supine Parliament. All the power accumulated so patiently by Gordon Brown, his chancellor and rival, shrivels like a prune in the sun of a prime minister who has made himself a war leader at home and a household name everywhere. Where this might lead—early entry to the euro? more foreign adventures?—nobody can say. But the system that endows one man with such authority should give Britons pause for thought.

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Airlines

The unpalatable truth

Nov 22nd 2001
From The Economist print edition

The shock of September 11th has forced airlines to face an awkward fact: in some respects, aviation is a declining industry

Get article background

LAST Thanksgiving a record 2.2m Americans took a flight to spend the holiday with family and friends. This week even the most optimistic airlines were hoping for only 1.8m. Air traffic in October and November is down by about 25% on a year ago in the world's biggest aviation market, thanks to a combination of recession and the attacks on September 11th. International travel from America has been hit even harder: the number of Americans flying across the Atlantic is down by over 30%. Never mind that more people are killed on America's roads every three months than have died in the entire history of commercial aviation. The recent disasters continue to instil terror.

As a result, despite cutting capacity, the big American airlines are still flying with planes barely 60% full—a figure that would be much lower were it not for hefty discounts. Boeing and Airbus, the two manufacturers of large jetliners, are offering airlines finance to pay for their purchases in order to stave off outright cancellations.

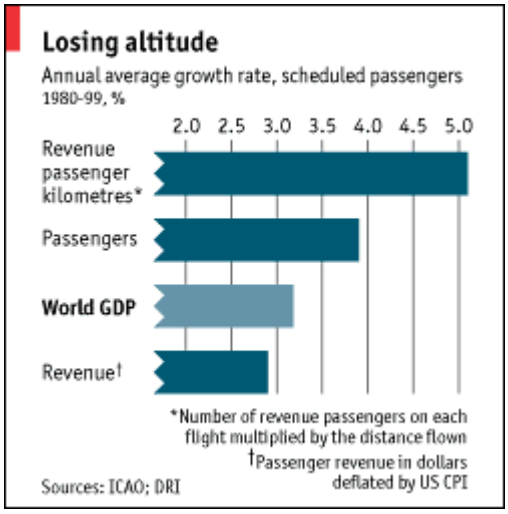
America's big airlines, such as American and United, are each bleeding cash at a rate of $10m-15m a day. In the third quarter, they lost a combined $2.6 billion, even after receiving state aid worth over $2 billion. Analysts now expect the American carriers to lose a total of $8 billion-10 billion this year, even after receiving another $2 billion or more of aid. The last time the airlines were in such straits, during the Gulf war and recession in 1990-91, it took them four years to return to profit, even though traffic recovered within a year.

The situation in Europe is no better. Two flag carriers, Swissair and Sabena, have collapsed since the terrorist attacks. Other big carriers, such as British Airways (BA) and KLM, are being driven into loss for this year and 2002. Traffic within Europe fell by over 10% in September and October, while traffic from Europe to America and Asia fell by 35% and 17% respectively.

During previous slumps, airline bosses have consoled themselves by pondering the industry's long-term growth prospects. They cite the steady 5% a year by which air travel grows—a rate that, after a blip, they see stretching out into the future. Who can blame them? After all, air travel has grown in all but one of the past 15 years—the exception being the Gulf war year of 1991.

But the financial reality is not so rosy. Although air travel, measured by number of passenger-kilometres flown, has long risen faster than economic growth, airline revenues have lagged world GDP growth for the past 20 years in real terms (see chart). Revenues and profits per seat have been falling because of greater competition springing from deregulation, first in America and then within Europe and across the Atlantic. As Andrew Sentance, chief economist at BA, points out, even before the latest slump only a third of mainstream airlines in Europe, America and Asia earned enough to cover their cost of capital, which is 8% on average. In most industries, such a situation would quickly lead to mergers.

But this is not so easy for airlines, hemmed in as they are by national ownership rules and rigid international regulation of routes.



As they strive to become leaner, America's airlines are retreating to their strongholds in the hub airports they dominate, such as Dallas-Fort Worth (American) and Atlanta (Delta). Most airlines have cut at least one “wave” of co-ordinated flights in and out of their hubs. If additional security checks are introduced for transferring passengers before they board their outbound flights, and the handling of such travellers thus slows down, some observers expect the airlines to switch to fewer flights in larger aircraft.

So far, however, the biggest effect has been for airlines to drop non-stop (“point-to-point”) flights rather than those that go through hubs. “We got rid of point-to-point in markets where demand no longer justified non-stop service,” said Don Carty, American's chairman, earlier this month. In other words, the network economics of hubs becomes more attractive for big carriers when times are tough. A study of America's changed airline-route map by Kiehl Hendrickson, an aviation consultancy, commissioned recently by the *New York Times*, shows that large carriers are cutting non-stop flights to cities where they do not operate hubs by more than they are trimming hub flights.

Austin Reid, chief executive of bmi British Midland, a mid-sized carrier, thinks that the industry's recent woes will also force airlines to get tough with unions and suppliers over restrictive practices that raise their costs. Between them, American and European airlines have already shed about 200,000 staff, on top of which their biggest supplier, Boeing, plans to cut 30,000. Few of these jobs will come back given that big carriers are looking to bring their operating costs down closer to the level of the low-cost carriers, the only airlines making money these days.

Another side-effect of the slump will be a smoother path for the “virtual merger” of BA's and American's transatlantic operations. Both carriers are encouraged by soothing noises from regulators in Europe. Washington insiders expect the Justice Department to approve the deal with some conditions, provided a looser bilateral “open-skies” agreement can be signed between Britain and America. The pressure is on the usually recalcitrant British to open up Heathrow airport to more American carriers before the British cede the power to negotiate open-skies deals to the European Commission, probably next spring.

Even if the American government's swift bail-out prevents airlines such as America West, United and Northwest toppling into bankruptcy, more consolidation is likely over the next year. In Europe, where the failure of Swissair and Sabena has shown that there is room for only a handful of mainstream carriers rather than today's 14, a shake-out is already under way. BA and KLM have revived talks about fusing their European networks. Meanwhile, Britain's low-cost carriers are expanding into continental Europe, as it becomes clear that mainstream airlines such as BA will struggle to make money on intra-European routes: this week Ryanair said it will open an operating base in Germany. As Mr Reid says, the whole face of aviation is changing.

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Japanese patents

An end to slavery

Nov 22nd 2001 | TOKYO
From The Economist print edition

At last, employees who develop patents in Japan are getting money and respect

IN 1993, Shuji Nakamura of Japan's Nichia Corporation invented blue light-emitting diodes (LEDs). But Mr Nakamura received a paltry ¥20,000 ($180) for his invention, and no extra perks. Rigid local employment practices meant that he was not promoted any faster than colleagues his own age: when he left Nichia in 1999 at the age of 45, he was earning an average salaryman's wage of ¥16m a year. At international conferences, western scientists dubbed him “slave Nakamura”.

When Mr Nakamura sued his former employer for a share of the profits from his invention earlier this year, he sent shockwaves across corporate Japan. Nichia, he says, has made millions of dollars from LEDs, which are now used in traffic lights, household electrical appliances and even medical equipment.

If successful, his lawsuit, which may not be resolved for another year, could cost Nichia as much as ¥2 billion. The law is vague, requiring companies to pay “adequate compensation” to employees who develop profitable patents. Nichia, like many other companies in Japan, had set (cheap) rates similar to those paid to scientists at government-run research institutes. Cocooned in the lifetime-employment system, few employees complained—at least not publicly—until recently.

Why has this changed? As lifetime employment has crumbled, so too has employee loyalty. In recent years, a small but growing number of employees have begun calling for a bigger share of profits from their inventions, prompting alarmed companies to start overhauling their reward systems.

At Toshiba, an electronics group, which revised its system in 1998, workers can now win up to ¥10m for an invention. In 1999, Omron, an automated-control equipment maker, raised its maximum pay-out to ¥100m. Dainippon Pharmaceutical set up a similar scheme this year. Most companies rely on cash incentives, since few have stock-option schemes. But many are still confused about how to share out profits and hope that Mr Nakamura's case will persuade either the courts or the Japan Patent Office to come up with new, clear guidelines.

Companies are not changing just to fend off lawsuits. Now that workers have become more mobile, their employers want to stop their best engineers and scientists from walking away. With the economy moribund, manufacturers need them to help add value to products and come up with new ideas. For instance, Yoshitsugu Kitamura, head of Omron's intellectual-property department, says that unless the firm develops new patents to replace those that are due to expire, its medium-term outlook will be grim. Omron wants to double its licensing revenues, currently about ¥500m a year, by 2005.

Kazuo Seki, a director at the Institute of Intellectual Property in Tokyo, says that another recent trend—spinning off internal divisions—has also prodded companies to rethink their patent policies. In the past, Japan's sprawling conglomerates rarely bothered to calculate the value of their patents. Those developed by one group company were freely used by others. Now that some divisions, especially high-tech ones, are being spun off, patents are being taken more seriously.

This is welcome news for in-house inventors whose patents have been pushed aside to gather dust. Only a third of Japanese patents are actually put to commercial use. Unlike America, where there are thousands of brokers that help match patent licensors with licensees, Japan has only 30 or so. Now, as part of a government-led drive to revive struggling smaller companies, patent-holders are being encouraged to lend dormant patents to companies that will actually use them.

The Japan Technomart Foundation (JTF), a public-sector organisation, has successfully found partners for around 1,000 patent-holders, including big companies and academics, since the government launched an

initiative to promote patent distribution in 1997. But Kohei Ishimaru, the JTF's vice-president, says more private companies need to take over this matchmaking role, not least because the JTF is due to be wound up in four years' time.

Although private patent-brokers are thin on the ground, they are at least becoming more ambitious—even taking an active role in nurturing ventures interested in licensing patents. Tsutomu Sakurai, chief consultant at Value Management Institute, owned by Asatsu, an advertising agency, and Shinsei, a bank, recently helped to launch Japan's first intellectual-property fund, raising ¥2 billion from investors such as Boeing and Mitsubishi Corporation. The fund will buy idle patents from companies and universities and sell them to start-ups, some of which it may even set up itself. Patently, that's progress.

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Parallel imports

Trouser suit

Nov 22nd 2001 | NEW YORK
From The Economist print edition

The European Court sides with Levi Strauss in its battle with Tesco

IT WAS a ruling that had consumers seething with anger and many a free trader crying foul. On November 20th the European Court of Justice decided that Tesco, a British supermarket chain, should not be allowed to import jeans made by America's Levi Strauss from outside the European Union and sell them at cut-rate prices without getting permission first from the jeans maker. Ironically, the ruling is based on an EU trademark directive that was designed to protect local, not American, manufacturers from price dumping. The idea is that any brand-owning firm should be allowed to position its goods and segment its markets as it sees fit: Levi's jeans, just like Gucci handbags, must be allowed to be expensive.

Levi Strauss persuaded the court that, by selling its jeans cheaply alongside soap powder and bananas, Tesco was destroying the image and so the value of its brands—which could only lead to less innovation and, in the long run, would reduce consumer choice. Consumer groups and Tesco say that Levi's case is specious. The supermarket argues that it was just arbitraging the price differential between Levi's jeans sold in America and Europe—a service performed a million times a day in financial markets, and one that has led to real benefits for consumers. Tesco has been selling some 15,000 pairs of Levi's jeans a week, for about half the price they command in specialist stores approved by Levi Strauss. Christine Cross, Tesco's head of global non-food sourcing, says the ruling risks “creating a Fortress Europe with a vengeance”.

The debate will rage on, and has implications well beyond casual clothes (Levi Strauss was joined in its lawsuit by Zino Davidoff, a perfume maker). The question at its heart is not whether brands need to control how they are sold to protect their image, but whether it is the job of the courts to help them do this. Gucci, an Italian clothes label whose image was being destroyed by loose licensing and over-exposure in discount stores, saved itself not by resorting to the courts but by ending contracts with third-party suppliers, controlling its distribution better and opening its own stores. It is now hard to find cut-price Gucci anywhere.

Brand experts argue that Levi Strauss, which has been losing market share to hipper rivals such as Diesel, is no longer strong enough to command premium prices. Left to market forces, so-so brands such as Levi's might well fade away and be replaced by fresher labels. With the courts protecting its prices, Levi Strauss may hang on for longer. But no court can help to make it a great brand again.

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Steel in poor countries

More metal for Mittal

Nov 22nd 2001 | GALATI, ROMANIA
From The Economist print edition

Lakshmi Mittal has developed a taste for steel makers in far-flung places

THE massive Sidex steel plant emerges, black on green, from the watery margins of the Danube delta as a veritable satanic mill. Thank God for it, exclaim the locals. Sidex is about the only decent employer in Romania's wild and beautiful delta region. With 28,000 workers, it accounts for 4% of Romania's industrial output and 7% of its exports. Before it was sold earlier this month to LNM, a British-Indian steel company, for $52m, it was Romania's largest state-owned company.

At one time closure looked more likely than sale. The plant had been haemorrhaging taxpayers' money for a decade. Nobody is quite sure how much; many deals were done on barter and energy bills were vague. The European Bank for Reconstruction and Development, which helped put the LNM deal together and considers it “vital” for Romania, reckons that Sidex could have been costing the state $300m a year.

Unloading this vast plant would have been an achievement at any price. LNM's offer, which was finalised once the Romanian government had approved a debt-for-equity swap to reduce Sidex's debts, looks a fair one. It will shoulder a portion of the money Sidex owes to local banks, inject $350m, and keep on the entire workforce for the next five years. Still, Lakshmi Mittal, the Indian owner of LNM, clearly thinks these conditions are worth accepting. And he should know.

Mr Mittal left India at the age of 25 and built his first steel mill in Indonesia. He has since made a speciality of turning around loss-making steel plants in odd places. Another recent acquisition was the clapped-out Annaba plant in Algeria. LNM is also bidding for four state-owned Polish steel mills that are due for privatisation, including the giant, hugely inefficient Huta Katowice. And earlier this month Mr Mittal announced plans to expand his interests in Africa by acquiring the steel-making division of ISCOR, a South African mining concern.

Mr Mittal's thinking is elegantly simple: poorer countries need steel too. By buying Sidex, now renamed Ispat-Sidex (Ispat being Hindi for steel), he is betting heavily that the withered Romanian economy, still only 60% of its size when communism ended, will start to grow, and with it demand for automotive, shipbuilding and construction-grade steel.

He will start by reclaiming the domestic market share that Sidex has lost. Renault-Dacia, Romania's biggest car maker, refuses to buy steel from Sidex, citing poor quality control. Mr Mittal thinks he can change Renault's mind. He also plans to produce more steel, despite overcapacity across the industry: production will be pumped up to 5m tonnes a year from the present 3m. With Sidex, LNM will become the world's fourth-largest steel producer.

Mr Mittal reckons that Sidex might swing back into profit in 2003. But he is taking no chances. A new boss, Narenda Chaudhary, has already been brought in to replace the hapless, chain-smoking local management. Mr Chaudhary, a veteran of India's state-owned steel plants, earned his spurs at LNM overseeing the rapid turnaround of Ispat-Karmet, a steel plant in Kazakhstan. Observers consider Ispat-Karmet to be one of Kazakhstan's most successful privatisations. Industry insiders scratch their heads at how Mr Mittal managed to make a go of such a decrepit, remote plant. Sidex, with access to the Black Sea and European markets, might just be an easier proposition.

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Oil mergers

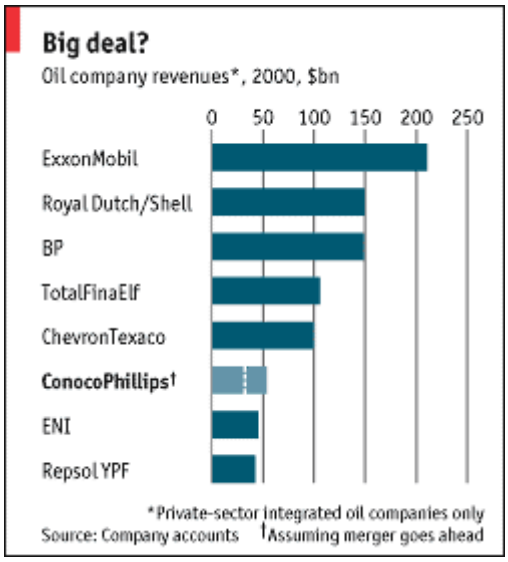
Minor majors

Nov 22nd 2001
From The Economist print edition

Might the union of Conoco and Phillips prompt a new wave of oil mergers?

"WE'RE happily married and expect lots of children." Thus a defensive Archie Dunham, chairman of Conoco, a mid-sized American oil company. He was responding not to an impertinent question about his personal life, but to doubts raised about an alliance of a different sort: Conoco's merger with Phillips Petroleum, another American oil firm, which was announced this week.

Although the $15 billion tie-up is structured as a "merger of equals", with shared management responsibilities and equal board representation for both partners, Phillips's shareholders will control over 56% of the new ConocoPhillips. If consummated, the deal will create the biggest gasoline retailer in America and the world's sixth-biggest private oil firm, measured by reserves and revenues (see chart)—though it still pales in comparison with state-run giants such as Saudi Arabia's Aramco.



There is undoubtedly some logic behind the merger. Thanks to the rising cost and risk of exploration in ever more remote areas, life has got harder for oil companies. That explains the wave of consolidation of the past three years that has seen Exxon take over Mobil, BP buy Amoco and Arco, Total absorb Petrofina and Elf Aquitaine, and Chevron buy Texaco. As a result, both Conoco and Phillips—once considered oil majors in their own right—are today mere minnows.

For a long time, both companies reacted by arguing that size wasn't everything. But they now seem as convinced as their peers that big companies are better able to weather the increasing volatility in oil markets. Although both companies deny that the recent sharp drop in oil prices was behind their decision to come together, it is surely no coincidence that the previous wave of mergers swelled just as oil prices collapsed to around $10 a barrel. Having a broader portfolio of assets has helped merged companies to cope with price swings better than smaller rivals. So have the savings they have made from cutting costs. Conoco and Phillips expect their union to reduce combined costs by $750m a year.

If they make it to the altar, that is. A bigger predator may still wish to make a meal of one, or both, of them—especially since the merger puts no premium on Conoco's shares over their market value. The two companies' share prices rose after the deal was announced amid speculation that any one of BP, Royal Dutch/Shell, ChevronTexaco, TotalFinaElf or ENI might swoop in with a counterbid. Some even speculate that the deal will set off one more wave of giant mergers.

If the Conoco/Phillips fusion does trigger yet another round of consolidation, however, it is unlikely to be as earth-shattering as the previous one, for one simple reason: the oil industry's premier league is too far ahead. Roll together the half-dozen or so middle-ranking companies just beneath ConocoPhillips, and their combined revenues still do not match those of ExxonMobil.

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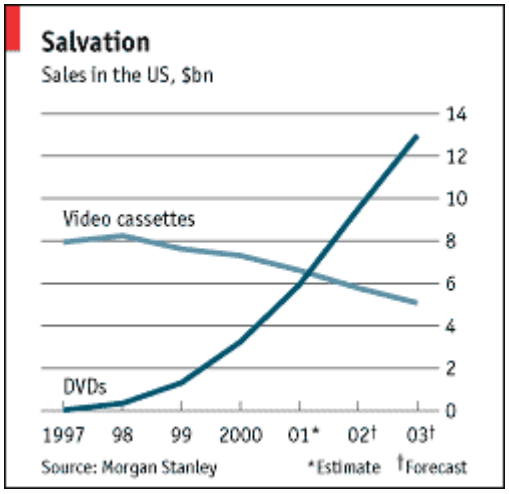
The DVD market

Real magic

Nov 22nd 2001
From The Economist print edition

A little plastic disc comes to the film industry's rescue



FORGET Harry Potter. No matter that the film about this schoolboy with magic powers broke all box-office records on its opening weekend, taking $94m in the United States and $23m in Britain. The truly momentous phenomenon in the film industry is not a pre-pubescent wizard but a humble circular piece of plastic: the digital versatile disc (DVD).

Next year, for the first time, sales of movies in DVD format are forecast to outsell those on video cassette in America (see chart), reaching a total of $9.5 billion, according to Morgan Stanley, an investment bank. Already, some 24m American households have DVD players, 80% more than a year ago. With a DVD recorder now in the shops as well, something that can record from the TV as well as play the discs, Christmas sales are expected to be strong. A technology considered a flop when it was launched in 1997 is now the basis for the fastest-growing consumer appliance ever.

Some in the film business grumble that people are simply buying DVDs instead of video cassettes: there is no net gain. Yet DVDs can do things that the cassette cannot, such as offer a choice of language in which to watch a movie, not to mention a crisper picture. And the studios have cleverly stuffed DVDs full of zappy extra features, such as new clips or interviews with the director.

Moreover, people appear to want to build up collections of DVDs, rather as they do of recorded music. The DVD is steadily gaining shelf space, even in the movie-rental store, and it should overtake the cassette even there within three years. And shops like DVDs, not least because they take up less space. The DVD could well boost the size of the overall home-video market.

Already, recent releases on DVD, such as “Snow White and the Seven Dwarfs” and “Star Wars Episode One”, have sold millions of copies each. At a time when any revenue growth in the media industry is startling, DVD sales at AOL Time Warner jumped by 44% in the third quarter this year, compared with the same period of 2000, to $279m.

But how lasting will the DVD effect be? Some 80% of a film's revenue comes from its distribution after the cinema release: to home video, pay-TV and the like. “The largest single portion of that revenue will be the DVD business,” says Christopher Dixon of UBS Warburg, an investment bank, which in turn will help to reduce the risk involved in making movies. “The DVD is the most exciting development in the film industry,” he adds, “but every eight years there has been a new distribution platform in the entertainment business. None of them lasts forever.”

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Cruise ships

Rough seas ahead

Nov 22nd 2001 | HELSINKI, TRIESTE AND TURKU
From The Economist print edition

European shipbuilders dominate the world market for luxury cruise ships. But the business is turning nasty

EPA

Will day follow night?

SHIPBUILDING has largely disappeared from Europe, destroyed since the 1970s and 1980s by low-cost competition from Asia. The building of luxury cruise ships, however, has been an impressive exception to the trend. Four suppliers—Kvaerner-Masa Yards in Finland, Fincantieri of Italy, Meyer of Germany and Alstom Marine's Chantiers de l'Atlantique in France—account for 70% of the global market for such ships. Their dominance has been a largely unsung success story.

Now, however, the Europeans face a series of challenges that threaten to push even this business into severe decline. The tourism market on which shipbuilders ultimately depend has been in deep trouble after September 11th. Renaissance, one of the big cruise operators, has entered bankruptcy protection. Others are sailing into each other's arms to cut costs: this week P&O Princess Cruises and Royal Caribbean Cruises announced a $6.8 billion merger that will create a new market leader with a fleet of 41 ships.

Worse, tough economic times have revealed that some of the European success was built on weak foundations. For example, Kvaerner, the Anglo-Norwegian owner of Masa Yards, has flirted with bankruptcy in recent weeks, has lost its chief executive, and has been rescued only by a cash injection from Yukos Oil, a Russian company. Its precarious financial state bodes ill for the future of its shipbuilding business. Equally depressing, shares in Alstom have collapsed since it emerged, after September 11th, that the company had given customers financial help to buy its ships, and had written off-balance-sheet guarantees that could greatly damage its finances if the downturn drags on.

Not everybody is gloomy, however. The underlying economics of the business is quite robust, and European shipbuilders have some strong advantages over competitors elsewhere. Today's cruise-ship industry is really a branch of the leisure industry that has little to do with traditional shipping, which is about efficient transport, says Kaj Liljestrand, head of Kvaerner-Masa's technology department.

The cruise market has long been centred on America. Some 7m Americans took a cruise last year, accounting for 2% of total holiday activity worldwide. But in recent years, there has been steady growth in Europe too. Peter Wild, a consultant, reckons that, although the American market is suffering in the short term, European tourists could take up some of the slack. Around 2m now take to the seas each year, compared with less than 1m in 1995. That accounts for a mere 0.2% of the overall European leisure market, a figure that gives cruise operators room for expansion.

Enrico Buschi, boss of Fincantieri's cruise-ship division, is phlegmatic about the downturn. True, cruise operators have had to discount fares. But they already have huge forward commitments for new ships. The past two years have been exceptionally strong, with a record 15 ships being delivered this year alone. Even though cruise operators might now pause, they have created a market in which consumer expectations will insist on the development of bigger and better ships.

European companies can more easily satisfy this demand because their experience dates from the origins of the cruise-ship industry. The 1960s saw the decline of big passenger liners and the rise of mass travel by air. At that time, a few American entrepreneurs believed there would be demand for mass-market

cruising, particularly in the Caribbean. However, they needed a more sophisticated kind of ship than was then available. They turned to European yards for help. A pioneer was Kvaerner-Masa, which was already building big ferries for Baltic routes. Others entered the market later; Fincantieri won its first order as recently as 1986.

Modern cruise ships are a breathtaking sight, and involve huge sums. A good example is *Adventure of the Seas*, a Voyager-class vessel recently built by Kvaerner-Masa. More than 310 metres long—the equivalent of three soccer pitches end-to-end—Voyager ships can carry 3,840 passengers served by 1,180 crew. *Adventure of the Seas*' centrepiece is a “street” of 120 metres lined with shops and cafés, and open at each end to atriums with glass-walled lifts. The contract for the first three Voyagers is worth some $1.5 billion.

The building of a cruise ship is a huge logistical challenge. Hundreds of steel-framed blocks, already fitted with tons of equipment to minimise on-board fitting-out, are connected together as the final vessel is assembled. The European yards have led the way in refining this block system and in streamlining the arrival of the millions of components that make up a ship.

Another competitive advantage is what Jorma Eloranta, Kvaerner-Masa's boss, calls the “network effect” created by the shipbuilders' reliance on specialist subcontractors. “You can't create this network overnight. It takes years of mutual co-operation,” he argues. Mr Eloranta is responsible for 4,500 employees at his yards, but up to 5,000 subcontracted workers can also be on site during construction.

As cruise ships have become fancier they have also been redesigned to allow most cabins to have windows and balconies, for which operators can charge more. By working closely with ship operators so that each new generation of ships helps to sustain growth in the underlying market, the European builders have tried to create a relatively stable base for their business. That should make the business of building cruise ships more robust than its predecessor industries in Europe. But the next few months look like being hard sailing, even for the most seaworthy companies.

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Face value

A rancher with an appetite

Nov 22nd 2001
From The Economist print edition

John Malone is buying up assets in a bid to become the king of European cable

TUNE in to pay television anywhere in Europe, and you are sure to come across a programme in which John Malone has an interest. “Ally McBeal”? He owns 18% of NewsCorp, whose Fox Entertainment Group makes the show. “Friends”? He owns 4% of AOL Time Warner, whose Warner Brothers Television produces it. The Discovery Channel? Animal Planet? QVC? He has stakes in each. UK Gold, which replays old BBC favourites? That, too, via his holding in Telewest, a British cable firm.

He may not be a household name in Europe, but Mr Malone and his Liberty Media already lurk behind lots of the stuff on TV there. Now, at a time when most media moguls are concentrating on cutting costs, he is busy hoovering up cheap European assets in order to get control of the continent's cables too.

In September, Mr Malone spent *euro*5.5 billion ($5 billion) buying six of the nine regional German cable systems that Deutsche Telekom, the telecoms incumbent, had been forced by regulators to shed. Earlier this month, he bought further cable networks which, under Germany's fragmented system, will link many of the former Telekom pipes right up to German front doors. Together, this will give Liberty 5m directly billed cable subscribers, and a further 5m billed through other operators—in total, over half the German cable market. Were Mr Malone to gain control of the other European cable firms in which he already has an interest—1.3m subscribers at Telewest, and 7.1m at United Pan-Europe Communications (UPC), a Dutch operator in which he has an indirect stake via UnitedGlobalCom—and combine the lot, he would have created Europe's biggest cable operation.

For the cowboy from Colorado, who turned Tele-Communications Inc into America's biggest cable operator, perhaps none of this should be a surprise. Mr Malone, who has lived for 30 years at the foot of the Rocky Mountains, relishes taking on the media establishment at its own game. When he was struggling to push cable in the 1970s, he faced derision, not to say obstruction, from the New York-based networks. By 1999, he had sold the business to AT&T for a handy $54 billion.

The stature of Liberty
Liberty Media, selected media interests
Aug 13th 2001

Company	Ownership, %
Starz Encore	100
Court TV	50
Jupiter Programming (Japan)	50
Discovery Communications	49
QVC	43
MultiThématiques	28
Telewest	25
USA Networks	21
NewsCorp	18
E! Entertainment	10
AOL Time Warner	4
Viacom	<1

Source: Liberty Media

Home Malone

Even today, he remains a defiant and reclusive outsider. Not for him the SoHo lofts or Park Avenue penthouses favoured by his rivals: he lives on a Colorado ranch, and rarely travels. “I have earned so

much money that money doesn't interest me any more," he told *Der Spiegel*, a German magazine, recently. "Now it's only the love of the game that drives me."

On paper, his "game" sounds simple enough. Operating cables is all about size. The bigger you are, the harder you can push the providers of content. Since programming can swallow some two-fifths of a cable operator's costs, bulk-purchasing discounts can hugely improve margins. A bigger operation can also save on costs such as technology, through, for instance, mass orders of set-top boxes. And only the big groups have the means to finance the upgrading of cable lines, particularly in old systems such as Germany's. This is crucial if a cable company is to offer the prized mix of digital interactive television, high-speed Internet access and voice telephony.

In America, Mr Malone used his control of distribution pipes to invest in a host of young content companies (though rarely owning them outright) and to promote their programming. Some, such as Discovery, have become global brands. An engineer with a doctorate in mathematical modelling, Mr Malone is as methodical in his strategic planning as he is uncompromising in its execution. He has not hesitated to flex his muscles and evict unco-operative channels. "I play hardball," is how Mr Malone once coyly put it.

Can he play the same game in Europe? His test will be Germany, the continent's biggest market. Given the needlessly complicated cable network there, in which a signal is carried via four different operators between its transmission and its arrival in the home, there is plainly scope for cost-cutting through consolidation. Cable in Germany has also long been treated as a utility, and pay-TV, in the form of Leo Kirch's struggling Premiere channel, as an expensive luxury. Mr Malone wants to turn cable into a dazzling service, with irresistible packages of channels to suit every pocket and occupy every niche. Such is his enthusiasm that he even flew to Germany last week to discuss the idea of taking up BSkyB's 22% stake in Kirch's pay-TV operation.

Nor is there any doubt that Mr Malone is in this for the long run. He is famously contemptuous of Wall Street's infatuation with quarterly results—hence his boldness in such an uncertain market. Not only has he grabbed the chance to buy assets on the cheap, but he is also willing to sit patiently on minority stakes until he spots a chance to seize control. Earlier this month, he bought $1.5 billion of discounted bonds in heavily indebted UPC. With that company now urgently trying to restructure its balance sheet, industry watchers expect the wily Mr Malone to end up with cheaply acquired control.

Yet Europe is not America, and it may trip Mr Malone up. For one thing, he may find it hard to wean Germans off their habit of paying very little for their cable. For another, satellite is a stronger competitor in much of Europe than it is in America. Nor will it be as easy to wring out economies of scale in fragmented, multilingual Europe. In so far as they want to watch American TV, Europeans increasingly want local versions of it, whether Disney or MTV. This makes it harder to negotiate content deals—and more costly to produce the content. Mr Malone took on New York, and won. Will it be so easy against Paris, London, Rome, Madrid, Munich, Gütersloh...?

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East Asian economies

Another bout of flu

Nov 22nd 2001 | HONG KONG AND SINGAPORE
From The Economist print edition

PA

Most of the world is in, or is heading for, recession. Yet the depth of the slump in parts of Asia is hard to beat

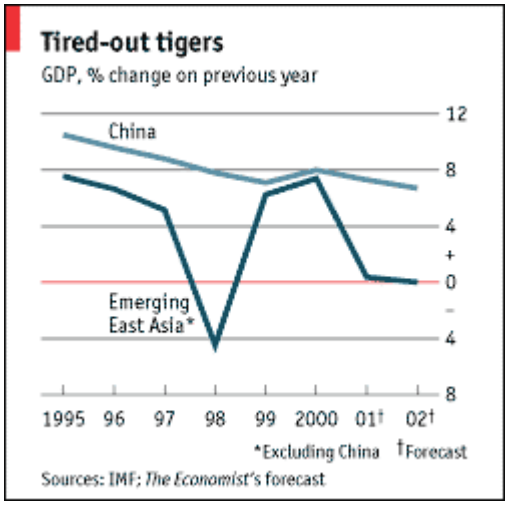
WESTERN newspapers fret daily about the likely scale of the recession in America, Japan and possibly Europe. Yet these economies look positively perky compared with much of East Asia. In the year to the third quarter, Singapore's GDP fell by 5.6%, and Taiwan's by 4.2%, the biggest drops on record. In the year to the fourth quarter, Singapore's GDP is forecast to drop by almost 10%. In comparison, America's GDP in the third quarter was still up by 0.8% on a year ago; Japan's probably fell by “only” 0.5%.

Output has also fallen or is stagnating in Malaysia, Hong Kong and Thailand. South Korea is still growing, but its year-on-year growth is less than 2%, down from almost 13% in early 2000. Even China has not escaped the slowdown. It grew by 7% in the year to the third quarter, but J.P. Morgan Chase reckons that growth slowed to only 4% at an annual rate between the second and third quarters—and the official figures are anyway exaggerated. China's domestic demand is holding up well enough, but export growth has slowed to nothing, from 30% in 2000.

The East Asian economies are among the most open in the world, and they are also big producers of electronic equipment. It is no surprise that they have been hit hard by a global recession and by the collapse of American investment in information technology. Electronic goods account for over half the exports of Singapore, Malaysia and the Philippines.

“Emerging” East Asia (including China) has probably grown at an annual rate of only 1% in the second half of this year. Most economists expect the region to start recovering next year, but, year-on-year, some economies may shrink for a second year. Since GDP will start next year well below the average level of 2001, growth will really have to spurt if there is to be positive growth for 2002 as a whole. J.P. Morgan Chase's forecast of 0.8% growth for Taiwan next year sounds modest, yet it implies a rebound of an annualised 11% in the second half. That seems optimistic. Even if America's economy picks up next year, its imports of information technology goods are likely to remain subdued. CLSA, a stockbroker in Singapore, expects GDP to fall next year in Thailand, Taiwan, Singapore, Hong Kong and Malaysia.

Taking 2001 and 2002 together, average GDP growth in emerging East Asia may be the slowest over any two years in the past three decades, slower even than in 1997-98. During that crisis, South Korea, Malaysia, Thailand and Indonesia suffered the deepest recessions; this time Singapore and Taiwan are the hardest-hit.



The nature of this recession is also different. There is little risk of a financial crisis similar to 1997-98, other than perhaps in Indonesia, where outstanding foreign debt is more than twice as big as annual exports. Today most Asian economies have large foreign-exchange reserves, smaller short-term foreign debts and current-account surpluses. On the other hand, there is a risk that some economies could mimic Japan, with a long bout of sluggish growth. The similarities are striking: deflation, excess capacity, high corporate debt, fragile banks, a resistance to structural change and a jump in government borrowing.

Deflation is particularly painful since Asian firms are among the most indebted in the world. Nominal GDP is falling in Hong Kong, Malaysia, Singapore and Taiwan, making debts more burdensome. Of all the economies, Taiwan is probably most at risk to the Japanese disease.

Yin and yang

Apart from East Asian economies' dependence on America and on IT production, recession has been made worse by dysfunctional banking systems that are unable to finance local firms, and by the failure of some governments to use monetary and fiscal policy to cushion the slump.

Only in Singapore, Hong Kong and South Korea do the banks work at all as they should—intermediating financial flows. Elsewhere, credit has shrunk over the past three years, as banks remain choked by bad loans. Where banks have reduced their problem loans, it is largely through transferring them to bad-loan vehicles, which have often been slow to dispose of assets, or by rescheduling maturities. Looking only at non-performing loans still on banks' balance sheets may therefore understate the total size of the problem. Previously restructured loans are also turning bad again. According to a report by Ernst & Young, total non-performing loans amount to 45% of all loans in Thailand, not the 13% officially reported. In East Asian economies, apart from Hong Kong and Singapore, at least one-fifth of all loans are now non-performing.

South Korea and Malaysia have done more to clean up their banking systems than Thailand has. The South Korean government has heavily recapitalised the country's banks. The worry is that new lending may not be prudent—the government recently put pressure on banks to rescue Hynix, a chip maker.

While there is a risk of a banking crisis in some countries, the more immediate concern is that, where financial intermediation has collapsed, interest-rate cuts may be ineffective as a way of boosting demand (again, shades of Japan). A failure to deal with banks' bad loans could thus choke growth for years.

The East Asian economies also differ in how much room they have for fiscal stimulus—and in their willingness to use it. Several economies have less room for fiscal expansion than in 1997, when many boasted budget surpluses. The total debts of East Asian governments have risen from 15% of GDP in 1996 to 45% of GDP today. Indonesia, the Philippines and Thailand all have debts of 65% or more of GDP.

Even where governments start with modest debts, some are readier than others to increase their borrowing to boost demand. Singapore could certainly have used fiscal and monetary policy more aggressively to cushion its economy. After years of surplus, the government has net public assets of over 100% of GDP.

South Korea and Taiwan make an interesting comparison. South Korea's GDP has continued to grow, but Taiwan's has slumped. Partly, this is because South Korea's exports take a smaller share of GDP than Taiwan's, and are less concentrated in electronics. But it also reflects South Korea's better policy response to support domestic demand. It has eased fiscal policy by much more than Taiwan has, and allowed its exchange rate to fall more sharply. In trade-weighted terms, Taiwan's currency has appreciated by 15% since April 2000.

The Hong Kong dollar and the Malaysian ringgit are both pegged to the greenback. This has made it harder to fight deflation. For example, residential-property prices have fallen by around one-half in dollar terms in both Singapore and Hong Kong since 1997. But in Singapore, some of the decline has come about through currency depreciation; in Hong Kong, by contrast, all of the decline has come through local property prices, hurting the balance sheets of households and firms.

China has been the most successful in propping up demand. Its economy is relatively closed. In the other, more open Asian economies, fiscal policy tends to be less effective in boosting GDP, as higher spending leaks into imports.

East Asian governments have been quick to blame their recessions on the global slump. But some of the blame lies much closer to home: with the failure to clean up weakened banks after the last financial crisis, and a failure to respond swiftly to this downturn.

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America's financial markets

Messages of hope?

Nov 22nd 2001 | NEW YORK
From The Economist print edition

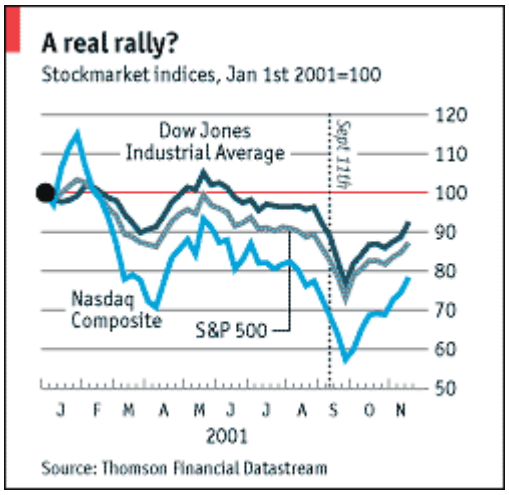
The markets see better times ahead

INVESTING, said the father of security analysis, Benjamin Graham, is like being in business with a Mr Market, a manic depressive whose mood swings sharply between fear and enthusiasm. Sometimes Mr Market's price is wildly above (or wildly below) any intrinsic value, and this is when the investor should sell (or buy). The trick is to work out when his mood is reasonable, and when it is unhinged.

Wartime has made Mr Market more volatile than usual, with initial despair about the economic outlook after September 11th giving way more recently to euphoria, to judge by the prices of some financial assets. As Wall Streeters headed off for Thanksgiving, financial markets seemed to be looking ahead to an early economic recovery in America.

Although they have dipped this week, share prices are still up sharply from their recent lows on September 21st (see chart). A rally of this speed and size (with prices up by about one-fifth) is unusual this early in a recession. Since 1932, Bianco Research has found seven similar-sized rallies of the S&P 500 index during a recession. And on each occasion, the rally preceded the end of the recession by an average of three-and-a-half months. Moreover, such stockmarket rallies have usually continued into the following quarter, with share prices gaining on average a further 22%. “Bluntly, the rally signals the market's belief that the recession is over,” says Jim Bianco, the firm's boss.

The prices of government bonds, of all maturities, have been falling since early November. In the week of November 12th falling prices pushed up the yield on 30-year Treasury bonds by 39 basis points (hundredths of a percentage point)—the biggest weekly rise since 1987. In the same week, the yield on ten-year Treasuries saw the biggest weekly increase since 1982. After an attempted rally ran out of steam this week, Treasury-bond prices resumed their fall, and yields their rise. Plenty of commentators say this reflects expectations of stronger growth before long—and thus of higher inflation.



Corporate bonds with an investment grade tell a similar story, with yields rising over the past couple of weeks. Because the risk of default on these bonds is small, their prices are driven by the same economic forces as government bonds. The yields on junk bonds, on the other hand, are much more sensitive to the risk of default, which typically declines as the economic outlook improves. Yields on junk bonds have fallen over the past two weeks, and the gap in yields between investment-grade bonds and junk has narrowed, from 688 basis points to 600.

Commodity prices are sending mixed signals. Oil prices have fallen by one-third since September 11th, and do not appear to have hit bottom. Falling oil prices usually point to economic weakness. However, the fall in prices may be driven mostly by expectations of increased supply, especially from Russia, rather than of falling demand. Other commodity prices are behaving as one might expect if economic activity were turning up. *The Economist*'s commodity price index is up by 5% from its low on October 23rd, almost back to where it was before the terrorist attacks. Copper—known as the metal with a PhD in economics, because of its usefulness as a leading indicator—is up by 12% in the past two weeks, and is now higher than it was on September 11th.

Perhaps the clearest indicator of what the markets think is the price of federal-funds futures contracts. As

recently as November 9th, these assumed that an interest-rate cut of at least a quarter-point, and quite likely a half-point, was a racing certainty at the Federal Reserve meeting on December 11th. Now, the market reckons there is only a 30% chance of a cut in December, and that the Fed may even start to tighten again early next year.

It is possible that the markets are being driven by factors other than expectations of economic recovery. The government-bond market has been confused since the Treasury's surprise decision in late October to stop issuing 30-year bonds. Prices of junk bonds may have been bid up by investment funds trying to use up large cash balances before the end of the year, rather than by expectations of economic recovery, says Martin Fridson of Merrill Lynch. Shares may be benefiting from looser monetary policy, not improved fundamentals, just as they did when the Fed eased in anticipation of a millennium bug.

And, as Graham knew, Mr Market is often wrong. He may have read too much into better-than-expected data on consumption. Even if the corporate sector is over the worst, share prices still look high by most historic measures (see article). PIMCO, America's largest bond fund, reckons the market is overdoing its optimism about the economy, and sees opportunities to buy bonds.

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About sponsorship

Goldman Sachs in energy

Nice work

Nov 22nd 2001 | NEW YORK
From The Economist print edition

How to make a fortune from a utility

IN A series of announcements over the past month, Goldman Sachs has wrapped up a four-year relationship with Constellation Energy that may just be one of the most lucrative ever in investment banking. Constellation's share price is no higher than when Goldman's involvement began. Its shareholders have seen dividends cut by 70%. Yet Goldman Sachs, and funds it manages, have made over $1 billion from the relationship, equivalent to one-quarter of the investment bank's annual earnings. Goldman, modest as ever, does not want to shout the number from the rooftops.

Until recently, Constellation had the more prosaic but descriptive name of Baltimore Gas & Electric, descendant of America's first gas utility. With the spread of energy deregulation in the 1990s, Constellation set out to restructure itself. Other energy companies, notably Enron, once a gas-pipeline business, were being rewarded with high stockmarket valuations for expanding beyond their boring old businesses. (Enron is now in such deep trouble that its takeover by a rival, Dynegy, is even in doubt.)

The two key components of Constellation's restructuring directly involved its longtime bank, Goldman Sachs, which thought it better to be a partner than a mere adviser. The first step was to create, in 1997, an unregulated subsidiary to trade electric power. Goldman put up 20-odd employees and technological help, while Constellation put up money, facilities and more people, plus some knowledge of the energy business.

The second step, in early 1998, was to set up a new company, Orion Power, to buy generating facilities that state regulators across America were forcing local utilities to divest. In this case, Constellation provided not just money, but the credibility needed to participate in the bidding. Goldman, through various investment partnerships, provided money, too. Once again, it supplied senior management.

Both operations had ambitions: Orion, its mission statement ran, aimed to “become the premier independent power company in North America.” It bought facilities in Ohio, Pennsylvania and New York city, and it went public. Constellation reorganised itself into two main firms. It dumped what remained of its regulated operations, as well as most of its debt, in one. It put the most valuable assets, like generators, into its trading arm, which was going to be spun off as an independent operation receiving investment, and management, from Goldman. Strong growth was predicted; the market applauded.

By last September, though, fierce competition in deregulated energy markets had sent the share prices of both Orion and Constellation down to half their peaks. On September 27th Orion agreed to be sold; on October 26th Constellation called off its plans to split.

If the original strategy has failed, it has paid off for Goldman Sachs. In the case of Orion, various Goldman investment partnerships will receive $1.1 billion, in return for an investment of about $370m. Goldman will also get $20m for helping to arrange the sale, after pocketing $9.3m a year ago for handling the firm's initial public offering. It has earned $16m for advising on various Orion acquisitions, $2.4m for arranging a debt offering and—well, you get the point. Meanwhile, Constellation agreed to buy out Goldman's interest in their joint trading operation for $355m, taking a $200m charge on the transaction.

Even though all these moves did not produce a more valuable company, Constellation reckons that it will have earned $273m from the Orion sale, on top of millions of dollars in profits already realised. That makes the deal a good one, it says. Not as good as Goldman's.

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Euro notes and coins

Gearing up

Nov 22nd 2001 | FRANKFURT
From The Economist print edition

The run-up to euro notes and coins is going fairly smoothly—so far

IN THREE weeks or so, people in the 12 countries of the euro area will be able to buy "starter packs" of euro coins. A fortnight later, on January 1st, they should be able to withdraw euro notes from cash machines and start spending their new money—if, that is, they can find a shop open on a public holiday.

First, a huge logistical task has to run smoothly: to deliver *euro*130 billion ($120 billion) of banknotes, and 30 billion coins, to banks and retailers. So far, the process is going well enough. The European Central Bank says that by the start of this month, about 25% of the planned pre-launch slug of notes, and 60% of the coins, had been "frontloaded", in the euro-jargon, to banks.

There have been mishaps. A few notes and coins have slipped into circulation early (and thus illegally), mainly by people having a joke: one Dutch shopkeeper took a *euro*5 note as payment for two bags of fish bait. But Europol says there have been seven armed robberies of euros: three in Germany and two each in the Netherlands and Italy. In the most recent, *euro*250,000 was stolen just outside Amsterdam. It is hard to say that the rate of armed robberies is out of line with past experience. All told, 12 security vans have been robbed in Germany this year; in the whole of 2000, there were 13 such robberies.

So far, so good? Yes, but these are early days. "Sub-frontloading"—where banks hand on currency to retailers and other non-bank companies—has scarcely begun. Only 10% of frontloaded notes have been passed down the chain. As sub-frontloading begins, the risk of leakage will increase. Countries where currency has leaked have either started sub-frontloading already (such as Germany or Austria) or they border a country that has (such as the Netherlands). In Ireland, by contrast, the distribution of notes even to banks began only on November 1st; in Portugal, both notes and coins must go no further than the banks before December. In neither country, say their central banks, have any euros made an early debut.

As the weeks go by, and the amount of new cash outside the central banks rises, the chance of further leaks (and for some Europeans, confusion) will also increase. By the week before Christmas, by far the greater part of the money will have been frontloaded; many more non-banks will have received euros; and the public will be buying starter packs of coins. And all this at the busiest shopping time of the year.

Meanwhile, the value of cash on the road, and with it the stakes for criminals and security firms, is about to rise. In the early stages, central banks have concentrated on frontloading coins, for reasons of both bulk and security. Now the emphasis is switching to notes. Moreover, there will be a lot of money on the move for months yet. New euros will continue to be transported after January 1st: the planned *euro*130 billion in notes is merely 40% of the value of national notes in circulation at the end of 2000. Meanwhile, all old national money has to be taken out of circulation.

Assuming that they get their money, will Europeans understand it? They still have a bit to learn. Encouragingly, a recent poll for the European Commission says that 84% know the exchange rate against their national currency to within five cents in the euro. Less good news is that 43% overestimate the period (which varies from country to country) during which shops will continue to accept old money. And will people embrace the euro enthusiastically? In some places, maybe; but another poll this week found that Germans did not welcome the new currency, by a margin of 43% to 33%. Would they rather keep the D-mark? Too late to ask now.

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Russia and the WTO

Shaping up for the club

Nov 22nd 2001 | MOSCOW
From The Economist print edition

Russia wants to join the WTO, but bending the rules for it would be self-defeating

JOINING a health club can reflect a genuine interest in fitness—or just a desire to keep up with the neighbours. Much the same applies to the World Trade Organisation (WTO), the body that sets the rules for international trade, as Russia steps up the pressure for a speedy admission.

The question is how far Russia still sees its application as a political issue, rather than as part of the real task: cleaning up its ragged statute book and murky bureaucracy to create a business-friendly environment. Talks have dragged on for years. Once the Kremlin started focusing on the issue, they speeded up a bit, but Russian negotiators stomped away from their last big negotiations, in July. They complained that the proposed outside scrutiny of draft laws was an intolerable imposition. There has been no movement since then.

Since China and Taiwan joined this month, however, Russia is one of only a handful of big countries outside the WTO, in the company of Saudi Arabia and Ukraine. Non-membership is increasingly galling. And since September 11th, the political climate has changed. America is now keen to help.

Easing the entry terms for Russia would mean agreeing generous transition periods for the protection of Russia's many uncompetitive industries, as well as taking a softer approach to enforcement. Even where Russia has the right laws, for example on intellectual property, they often fail to work reliably in practice. Outsiders are keen to see hard evidence, rather than the usual promises, that this is changing.

If America sees political reasons to help smooth Russia's path, it will still be tricky. Joining the WTO requires the agreement of all 144 member countries. Many have years of experience trading with Russia, and clear ideas about the changes they want to see. They include former Soviet captive countries such as the Baltic states, which strongly prefer clarity to fudge when dealing with Russia. Added pressure from America might speed up negotiations, but it cannot guarantee the outcome.

The next meeting of the working group on Russian membership, in January, will show how far Russia is really prepared to adapt, and how many concessions other countries are ready to make. Even if all goes well, Russia's aim of joining by the end of 2002 still looks very ambitious.

In any case, opinion is divided inside Russia about the merits of membership. The most important sectors of the economy are producers of raw materials, which are not covered by the WTO. There are powerful domestic lobbies against. Konstantin Remchukov, a senior parliamentarian who considers himself a liberal, nonetheless wants to delay WTO membership, saying that only 7% of Russian exports will benefit, but that outside competition will devastate much of the economy. Another big lobby against membership is the bureaucracy itself, addicted to arbitrary decision-making; the idea of a rules-based system adjudicated by outsiders appals it.

The strongest supporters are economic reformers, along with nascent producers of manufactured exports. Potentially competitive Russian products, such as steel, have suffered badly from anti-dumping measures—notably in the United States, which argues that Russia's low domestic energy prices give it an unfair advantage. Simply sorting that one out will test President George Bush's new-found affection for Russia.

Oddly, western companies actually inside Russia are in two minds as well. Some, such as those involved with telecoms or business services, are strongly in favour. Abolishing artificial restrictions will be good for their expansion plans. But others—chiefly those producing fast-moving consumer goods—are strongly against. Having invested in schmoozing Russian decision-makers, the last thing they want is for their

hard-won niches to be blasted by free competition.

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About sponsorship

Terrorists and hawala banking

Cheap and trusted

Nov 22nd 2001
From The Economist print edition

Homing in on networks of informal money transfers

AP

Western Union, Peshawar-style

THE *hawala* system is an ancient, trust-based method of sending money legally across borders that is now under threat from efforts to cut terrorists off from their sources of funds. Earlier this month, President Bush announced the freezing of assets belonging to Barakat, a financial, telecoms and construction group based in Dubai. American officials say that Barakat, a "*hawala* conglomerate", is a money mover for al-Qaeda, Osama bin Laden's loose terrorist network. But there is collateral damage: freezing Barakat has deprived one dirt-poor country, Somalia, of pretty much its only efficient payments system.

In mid-November, Britain gave its customs officers the power to inspect and seize evidence from money changers and transmission agents, including *hawala* dealers, all of whom must be registered with the authorities by next June. In America *hawala* dealers will come under money-transmission regulations at the end of the year. Over the next year, the Treasury's Financial Crimes Enforcement Network (FinCEN) will study what further measures could be taken to control networks of informal money transfers.

Although *hawala* dealers have none of the trappings of banks (big buildings, uniform paperwork), their methods predate western banking practices by centuries. In the second half of the Tang dynasty, the Chinese devised a system known as *fei qian*, or flying money. It was a way for southern Chinese provinces to pay tax to the imperial capital without the risk of travelling and being robbed on the way.

In the *hawala* system, no money moves physically between locations; it is transferred by means of a telephone call or fax between dealers in different countries. No legal contracts are involved, and recipients are given only a code number or simple token, such as a low-value banknote torn in half, to prove that money is due. Over time, transactions in opposite directions cancel each other out, so physical movement is minimised. If an imbalance builds up, cash or jewellery is carried across borders, trade invoices are adjusted, or conventional banks are used. Trust is the only capital that the dealers have. With it, the users of *hawala* have a worldwide money-transmission service that is cheap, fast and free of bureaucracy.

From a government's point of view, however, informal money networks are threatening, since they lie outside official channels that are regulated and taxed. Earlier this year, Pakistan's finance minister, Shaukat Aziz, a former Citibank executive, complained that only $1.2 billion of the $6 billion sent annually to Pakistan from overseas arrives through the banking system. Most of the rest, he said, makes its way in through *hawala* and other informal channels. Now that America is scrutinising money movements around the world and freezing accounts, more funds are entering Pakistan officially.

By far the largest proportion of people who use informal networks are overseas workers remitting earnings to their families. Not only do they distrust official institutions; they also cannot afford them. *Hawala* dealers usually charge a commission of 1-2% for a transfer, and they might offer a better exchange rate than the official one. Moreover, they often arrange for funds to be delivered to people's homes, even in small villages. By contrast, Western Union, an official money-transfer service, charges $22 to send $150 from New York to Pakistan—a near-15% commission.

Undoubtedly, criminals as well as overseas workers are using informal money-transfer systems.

Historically, *hawala* networks have played a vital role in the smuggling of gold from Europe to India, through Dubai. According to Martin Comley at the National Criminal Intelligence Service in London, the use of *hawala* dealers in Britain by criminals has been rising in recent years. He notes that the operations of some dealers are now so large that they need to use the banking system to help them make transfers.

The question for law-enforcement agencies is whether informal money-transfer networks are so permeated by illegal activities, including terrorism, that they should be shut down altogether. Tom Naylor, an expert in economic crime at McGill University in Montreal, says it is nonsense to think that informal remittance houses could handle shady money on the scale of the big, reputable banks.

In any case, it is unlikely that efforts to shut down *hawala* networks would succeed. Anyone with a little money, a few trusted friends and a telephone can execute a *hawala* transaction. Even bringing them under supervision by forcing them to apply for a licence to operate would be a difficult and potentially counter-productive task. In some countries, the moment a law-enforcement officer is seen walking in the door to check on procedures, says Nikos Passas from Temple University, who is advising FinCEN, people simply switch to an as yet undetected dealer.

Mr Passas warns against future draconian measures. Whatever happens, there will still be a huge demand for informal methods of money transfer, he says, and it is better that such services remain in the open. Currency controls and high import tariffs have created the environment in which *hawala* dealers flourish. When the Philippines abolished exchange controls in 1992, official remittances from abroad quadrupled.

In the long run, the best way to reduce the use of *hawala* systems would be to strengthen the confidence of immigrant communities in regulated banks, in both their home and adopted countries. It would also help a lot if banks lowered the exorbitant charges for making small international transfers.

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Economics focus

Taking the measure

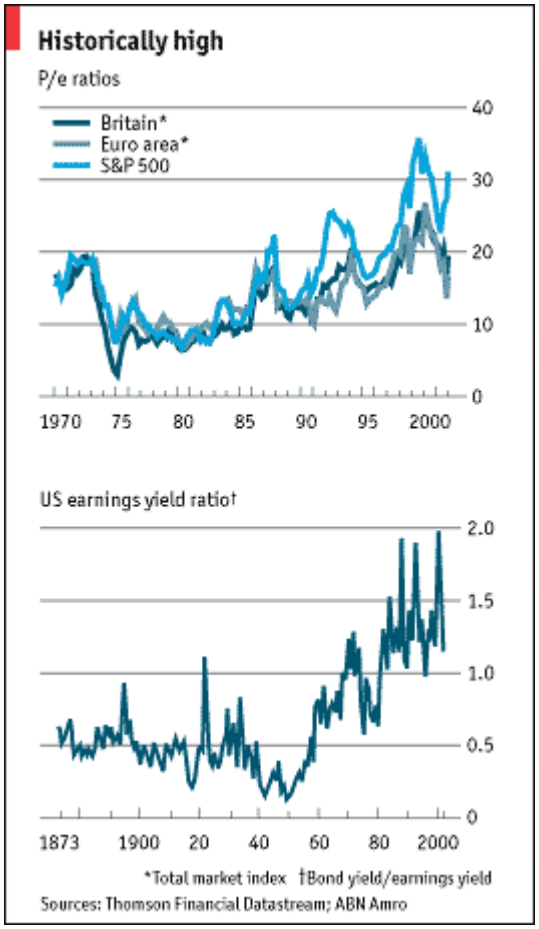
Nov 22nd 2001
From The Economist print edition

Apart from "animal spirits", what figures excite stockmarket bulls?

AFTER shares worldwide hit their post-attack lows on September 21st, the Dow Jones Industrial Average has risen by close to 20%—in what some enthusiasts already call a new bull market. Given dismal forecasts of American growth, plunging consumer confidence and slashed estimates for corporate profits, can any of the tools that are used to measure the markets validate the bulls?

• **P/e ratios.** One common indicator the bulls seem to have forgotten, at least in America, is the price/earnings (p/e) ratio: the share price divided by earnings per share. Even when the S&P 500 index hit a three-year low just after the terrorist attacks, the average p/e ratio, at 28, was already high by historical standards; now it stands at 31. In Japan, the average p/e is around 62—which, hard to believe, is modest compared with the mid-1990s, when analysts attempted to justify p/es of over 100. In Europe, p/e ratios are now blushingly modest; they average around 16, more comfortably within historic ranges (see top chart).

Adding to questions about high valuations in America is uncertainty over the "e" in the p/e ratio, the earnings that underpin share valuations. Earlier this month, Standard & Poor's, a ratings agency, complained that too many companies artificially boost their profits. A recent study by the Levy Institute estimates that operating profits for the S&P 500 have been inflated by at least 10% a year over the past two decades, thanks to a mix of one-time write-offs and other accounting tricks. Such sleights of hand mean that American shares may be even dearer than they look.



• **Yield ratios.** As soaring p/e ratios have become harder to justify in recent years, and questions about earnings have mounted, other indicators have come into fashion. One is the "earnings yield ratio", which compares returns on government bonds with an implicit earnings "yield" (in fact, the inverse of the p/e ratio) to shareholders. The theory behind this ratio, popularised by Alan Greenspan, the Fed chairman, some years ago, is that the earnings yield on shares has moved fairly closely in line with yields on government bonds, at least recently. In late September, plenty of analysts pointed to this rule of thumb as an argument that American shares were cheap.

As a relative measure, the earnings yield ratio has the virtue of comparing shares with a riskless alternative, but it is a long way from being an iron law. As Chris Johns of ABN Amro, an investment bank, points out, the relationship between bond yields and equity earnings yields is far less stable than it at first appears. In America, for most of the years since 1873, and even as recently as the 1970s, shares traded at far higher earnings yields—that is, lower p/e ratios—relative to government bonds than they do today (see bottom chart).

Earnings yield ratios have a problem. Traditionally, investors have looked to cash dividends as the ultimate source of share value: these are pocketable returns, after all. But as dividends have fallen out of

fashion, investors have had to rely on earnings, flawed as they are, as a proxy. Shareholders face two big risks; first, that without a dividend stream they may never recoup their investment, and second, that the flaws in earnings make profits difficult to gauge. Given these, it seems a stretch to put too much faith in a fixed relationship with bond yields, much less the view that shares are fairly valued when these yields are equal.

• **Better ratios.** Some point to Tobin's Q—the ratio of a firm's market value to the replacement cost of its assets—as the best way to understand market values. This certainly has appeal, since it reflects the costs a competitor would face in re-creating a business. But replacement cost is hard to measure, and is of little help in explaining daily price movements. The next best thing, comparing market prices with the book value of assets, vastly underestimates the value of companies with intangibles such as patents and brands.

An alphabet soup of ratios is available to escape the flaws of measuring earnings: price-to-EBITDA (earnings before interest, tax, depreciation and amortisation) and price-to-cashflow, for example. These do a somewhat better job, since they measure profit in a way that, ideally, is more closely tied to a company's underlying performance. But on these measures, according to Peter Oppenheimer of HSBC, stockmarkets in America, Britain and France are still highly valued, though German shares are less so.

Of course, no single metric can unlock the secrets of share values. But the good measures are those that are useful in bear and bull markets alike. Discounted cashflow valuation, for instance, is another metric that looks at the value of an entire firm according to the profits it expects in future. But it relies on a “risk premium”—the additional return investors require to compensate for the risks of holding shares—which is both the most important, and the most debated, figure in finance. Differing views about the risk premium can support almost any equity values. Recent weeks have shown that this slippery idea is central in the struggle between the bulls and the bears.

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Astronomy

Things that go flash in the night

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From The Economist print edition

Continuous monitoring of the sky could lead to all kinds of new discoveries

IN MARCH 1999, a flash of light arrived from a distant and anonymous galaxy in the direction of the constellation Virgo. By chance, a telescope was pointing in the right direction to record this event, which was so faint and subtle that astronomers are only now announcing its discovery. Tiny though it was, this flash has illuminated a mystery regarding the most powerful explosions in the universe. And it could even be the starting-point for a new way of doing astronomy.

Daniel Vanden Berk, an astronomer involved in the Sloan Digital Sky Survey (the project whose telescope made the observation), described the flash at a conference held this month in Woods Hole, Massachusetts. Based on its brightness and colour, Dr Vanden Berk argued that the flash was similar to those that have been seen following gamma-ray bursts. These are fearsome explosions that occur once or twice a day in random locations throughout the universe. They are so mighty that they briefly outshine the entire galaxy from which they come; and so enigmatic that nobody knows what causes them even after three decades of research. They were discovered in 1969 by American military satellites that were monitoring the Soviet Union (and, incidentally, the rest of the universe) for gamma rays, which also happen to be produced during nuclear detonations.

To work out what was going on, astronomers launched their own gamma-ray satellites, and established hotlines so that observers who were using telescopes at the time of a burst could quickly turn them in the direction of the gamma rays. In the past few years this approach has detected fading glows of light coming from otherwise ordinary-looking galaxies. The March 1999 flash resembles these afterglows in all respects but one: none of the satellites detected any accompanying gamma rays.

This is important for two reasons. First, it gives a clue about the nature of the explosions. In one popular theory, a burst occurs when a very massive, rapidly spinning star collapses to form a black hole. As the star implodes, two tightly focused beams of gamma rays are emitted from the poles of the star. When one of those happens to point at the earth, astronomers detect a gamma-ray burst. A consequence of this theory is that the light from the explosion is less tightly focused than the gamma rays. So it should be common for the beam of light to intersect with the earth even when the gamma rays miss. The Sloan team's discovery of a burst without gamma rays lends some support to this theory—or, at least, it suggests that the correct theory must involve a narrow beam of gamma rays and a wider beam of light.

But the discovery also shows how profitable it might be to monitor the whole sky with ordinary optical telescopes. The Sloan telescope was designed to make a static map of the heavens, not to search for sporadic flashes. Only by chance did it observe the right patch of sky at the right time. What might be discovered with telescopes designed to monitor huge swathes of the sky every night, or every minute?

Staring at the sky

Dr Vanden Berk's discovery provides one answer to this question. Some others have long been known. For hundreds of years, astronomers have studied “variable” stars, so called because they vary in brightness. Most stars (including the sun) go through a variable stage, so they are used to study stellar

life-cycles, among other things. Yet, according to Bohdan Paczynski, an astronomer at Princeton University, in New Jersey, current catalogues of variable stars are woefully incomplete, containing only 5% of the bright variable stars that exist.

An all-sky optical monitor is also a good way to find planets around other stars. This can be done by looking for the other-worldy version of a solar eclipse—a slight dimming of a star's light that occurs when an orbiting planet moves in front of it. Such an eclipse was observed in 1999 in a star that was already known from other techniques to have a planet.

There is also the enticing prospect of discovering wholly new phenomena. The domain of “transient” objects, which pop on and off unpredictably, is almost totally unexplored, because of the usual way of doing optical astronomy: scheduling time on the telescope months in advance, and using giant telescopes with tiny fields of view. Those few astronomers who have searched for optical transients have either focused narrowly on a particular scientific goal, such as planet-hunting, or a particular patch of sky, such as the centre of the Milky Way. Dr Paczynski is now urging his colleagues to extend their searches to the whole sky, to look for anything and everything whose brightness changes.

Trawling the whole of the night sky with an optical telescope is challenging because it is so complicated—there are billions of stars and galaxies to contend with, not to mention meteors, artificial satellites and aeroplanes. The situation with gamma rays is much simpler: there are only a few hundred gamma-ray sources in the sky, and a single gamma-ray burst outshines them all, making it easy to figure out when and where one has happened.

So little is known about optical transients that even a modest telescope can be used for cutting-edge research. With a telescope only 10cm (4 inches) in diameter, estimates Dr Paczynski, one could discover a million new variable stars. Some current projects to search for planets and gamma-ray-burst afterglows do not even use telescopes: they use telephoto camera lenses, which have the advantage of a comparatively wide field of view.

This means the subject is open even to amateurs. Tom Droege, of Batavia, Illinois, is spending his retirement building automatic sky-monitors from telephoto lenses and digital cameras, and giving them to people whom he believes to be serious about using them to explore the sky for variable objects. He has given away three of his creations so far, forming a loose confederation called the Amateur Sky Survey.

The real challenge is not hardware, but software. It will probably require professional scientists, or software designers, to come up with algorithms to analyse the data immediately, reject any blips due to errors and aeroplanes, and identify the truly enlightening flashes. The problem is similar to that faced by military spy satellites, which have to scan huge patches of the earth's surface and search for interesting changes, such as troop movements. Just as with gamma-ray bursts, the star-gazers may have something to learn from the spooks.

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NASA

A new broom?

Nov 22nd 2001
From The Economist print edition

The space agency faces a shake-up

Get article background

THE trouble with asking for an honest opinion is that you are liable to be told unpleasant truths you would rather not hear. This month, America's space agency, NASA, received the scathing results of an evaluation conducted by a retired aerospace executive, Thomas Young. His report painted a grim portrait of the agency's mismanagement of the International Space Station (ISS), which has enough manpower to stay in orbit but not enough to carry out the scientific research for which it was supposedly built. At about the same time, Daniel Goldin, NASA's top administrator, chose to announce his exit. Now, the agency may have to swallow still more bitter medicine from Mr Goldin's heir apparent, the man who instigated the investigation by Mr Young.

Sean O'Keefe, who was nominated for the job last week, has revealing qualifications. Formerly the deputy head of the federal Office of Management and Budget, Mr O'Keefe is by pedigree an accountant rather than an astronaut. Presumably he will bring some of his profession's down-to-earth realism directly to bear on NASA's starry-eyed space cadets. If confirmed, his first responsibility will be to fix the ISS, an albatross that is billions over budget.

Mr O'Keefe's record portends a gloomy future for fans of manned space flight, as well as for those who see the agency as a sort of guaranteed jobs programme for needy aerospace engineers. Earlier this month, before his nomination was announced, Mr O'Keefe ruffled feathers in Washington, DC, when he presented the House Science Committee with exactly the kind of chart that space enthusiasts hate to see: a side-by-side comparison of government spending on manned space flight against spending on other research programmes. His graph showed that the National Institutes of Health's cancer research centre received $4 billion in federal funds last year, but the space station got twice as much. “I mean, why put that in that graph like that?” asked Dave Weldon, a Florida congressman whose district includes the Kennedy Space Centre. “The reason I'm particularly bothered by this is, you know, you're here for the administration and the administration claims to be a big supporter of manned space flight.”

Once Mr O'Keefe is through with NASA, Mr Weldon and his constituents may be disabused of that notion. To cut costs, Mr O'Keefe is likely to implement some combination of mission cancellations and staff lay-offs. There have also been hints that the agency will close one of its ten space centres. Besides Kennedy Space Centre, Texas's Johnson Space Centre and the Marshall Space Flight Centre in Alabama are heavily involved in manned space flight, and thus could be candidates for the cost-cutter's axe.

If the agency's management regains credibility through such measures, its plans for unmanned missions, such as the cash-strapped Pluto Express probe, may get a warmer reception. Space centres devoted to unmanned missions, such as Maryland's Goddard Space Flight Centre, could also benefit from this new focus.

But the agency is unlikely to ask for, still less receive, more money until it sorts out the ISS mess. In one of his last interviews as NASA's chief, Mr Goldin said that if the agency requested more funding it would start to resemble a “self-licking ice-cream cone”. If his appointment is confirmed, Mr O'Keefe could be just the man to lick this particular ice-cream into shape.

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Meteorology

Folk wisdom

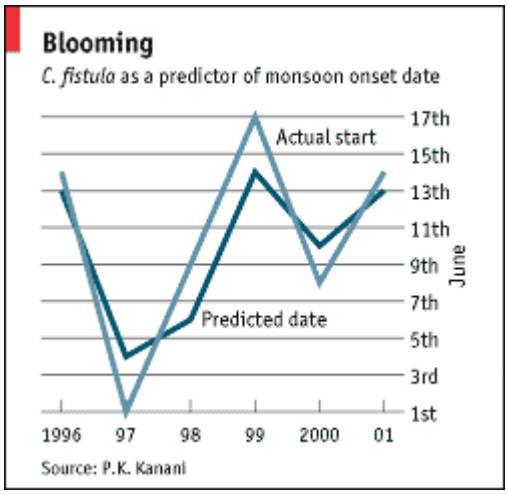
Nov 22nd 2001 | JUNAGADH
From The Economist print edition

Traditional weather-forecasting on trial

CAN traditional rules of thumb provide accurate weather forecasts? Researchers in Junagadh, India, are trying to find out. Most farmers in the region grow one crop of peanuts or castor per year. In a wet year, peanuts give the best returns, but if the rains are poor, the more drought-tolerant castor is a better bet. In April and May, before the monsoon comes, farmers decide what to plant, buy the seed, prepare the soil and hope for the best. An accurate forecast would be extremely helpful.

Little wonder, then, that observant farmers have devised traditional ways to predict the monsoon's timing and character. One such rule of thumb involves the blooming of the *Cassia fistula* tree, which is common on roadsides in southern Gujarat. According to an old saying which has been documented as far back as the 8th century, the monsoon begins 45 days after *C. fistula*'s flowering peak. Since 1996, Purshottambhai Kanani, an agronomist at Gujarat Agricultural University, has been collecting data to test this rule. He records the flowering dates of trees all over the university's campus and plots a distribution to work out when the flowering peak occurs. While not perfect, *C. fistula* has so far done an admirable job of predicting whether the monsoon will come early or late (see chart).

Similarly, with help from local farmers, Dr Kanani has been investigating a local belief regarding the direction of the wind on the day of Holi, a Hindu festival in spring. The wind direction at certain times on Holi is supposed to indicate the strength of the monsoon that year. Wind from the north or west suggests a good monsoon, whereas wind from the east indicates drought. Each year before Holi, Dr Kanani sends out postcards to over 400 farmers in Junagadh and neighbouring districts. The farmers note the wind direction at the specified times, and then send the postcards back.



In years of average and above-average monsoons (1994, 1997, 1998 and 2001), the wind on Holi tended to come from the north and west. In the drier years of 1995 and 1996 the majority of farmers reported wind from the east (Dr Kanani did not conduct the study in 1999 and 2000). As with the *C. fistula* results, the predictions are not especially precise, but the trend is right.

Dr Kanani first became interested in traditional methods in 1990, when an old saying attributed to a tenth-century sage named Bhadli—that a storm on a particular day meant the monsoon would come 72 days later—proved strikingly correct. This prompted Dr Kanani to collect other rules from old texts in Gujarati and Sanskrit.

Not all of his colleagues approve. Damaru Sahu, a meteorologist at Gujarat Agricultural University and a researcher for India's director-general of meteorology, says that traditional methods are “OK as a hobby”. But, he goes on, they cannot be relied upon, and “may not be applicable to this modern age.” Yet Dr Sahu concedes that meteorological science has failed to provide a useful alternative to traditional methods. For the past 13 years, he notes, the director-general for meteorology has predicted “normal monsoon” for the country. Every year, the average rainfall over the whole country is calculated, and this prediction is proved correct. But it is no use at all to farmers who want to know what will happen in their region.

Dr Kanani hopes that his research will put traditional methods on a proper scientific footing. He and his

colleagues have even set up a sort of peer-review forum for traditional meteorology. Each spring, he hosts a conference for 100 local traditional forecasters, each of whom presents a monsoon prediction with supporting evidence—the behaviour of a species of bird, strong flowering in a certain plant, or the prevailing wind direction that season. Dr Kanani records these predictions and publishes them in the local press.

He has also started a non-governmental organisation, the Varsha Vigyan Mandal, or Rain Science Association, which has over 400 members. Its vice-president, Dhansukh Shah, is a scientist at the National Directorate of Meteorology in Pune. By involving such mainstream meteorologists as Dr Shah in his work, Dr Kanani hopes to bring his unusual research to the attention of national institutions. They could provide the funding for larger studies that could generate results sufficiently robust to be published in peer-reviewed science journals.

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Ethology

Bird brains

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Some birds may be clever enough to imagine what other birds are thinking

IN MYTHOLOGY, literature and fable, members of the crow family, or corvids, often appear as deities, thieves, or harbingers of doom. A common theme in tales about such birds—crows, magpies, ravens, jays and jackdaws—is their superior intelligence over other animals, sometimes even including humans.

Scientists have found that corvids are, indeed, particularly clever. In 1996, a group of New Caledonian crows in New Zealand were observed making and using hooked twigs as tools to capture food. Two years later, it was shown that western scrub jays seemed to have a form of memory that had previously been thought unique to humans: they were able to recall what a past experience was, and where and when it occurred. They remembered where they had stored food and what kind of food it was, and would even recover the most perishable items first.

Now researchers have shown for the first time that an animal other than a human can remember the social context of a past event, and use this knowledge to adjust its behaviour and plan for the future. Given the opportunity, scrub jays will attempt to steal food hidden by other members of the species. However, Nathan Emery and Nicola Clayton of Cambridge University have shown that thieving jays are much more careful when it comes to hiding their food when other birds are watching. This seems to be because they know, from their own experience as thieves, that it could be stolen.

The researchers tested this by allowing jays to hide their food, either in private or with another jay watching, and then giving the jays an opportunity to recover their food. Thieving jays remembered that they had been watched burying their food and were more likely to go back later and rebury this hoard in private. The researchers also found that it is the practical experience of being a thief—rather than merely watching others steal—that teaches a jay to hide its food in private. The results appear in this week's *Nature*.

These findings are important because there has long been a debate about whether animals can demonstrate planning and conscious thought. The research also has implications for the “theory of mind”—the ability to read another individual's intentions, beliefs and desires. This ability develops in humans between the ages of two and three. The new findings suggest that jays can also project their own experiences and memories on to others.

Similar work has not yet been done in primates, so it is not possible to say if these animals have similar abilities, although it seems likely. But there would seem to be little doubt that corvids qualify as avian Einsteins. Being called “bird-brained” may not be such an insult after all.

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About sponsorship

Naval heroes

With one eye only

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Bridgeman

Wellington found him both “vain and silly” and “a very superior man”. A fair biography of Nelson should give us the two sides

“MANY lives of Nelson have been written: one is yet wanting.” So wrote Robert Southey in the foreword to his “Life of Nelson”, published in 1813. Since then, around a hundred other authors have felt that just one more biography was wanting and, as the decade of anniversaries to mark Nelson's victories approaches its Trafalgar climax in 2005, we can expect a steady flow of them.

Nelson: The Man and the Legend
By Terry Coleman

Oxford University Press; 448 pages; $40.
Bloomsbury; 448 pages; £20

Buy it at
Amazon.com
Amazon.co.uk
Amazon.com
Amazon.co.uk

A captain before he was 21, a household name throughout much of Europe at 39 and killed in action just a few weeks after his 47th birthday, Nelson lived a crowded and colourful life. Not content with winning some of the most resounding victories in British history at the Nile (1798), Copenhagen (1801) and Trafalgar (1805)—and losing an arm and the sight of an eye in the process—he also had a tempestuous and very public love affair with Emma Hamilton, one of the most beautiful women of the day. Affectionate, engaging and a devoted friend and father, he was also ruthless and occasionally even cruel. Uninspiring and unheroic in his personal appearance, he was also one of the most charismatic leaders Britain has ever produced, able to inspire devotion, even love, in those who served with him. It is this combination of opposites that makes him so fascinating and, as a result, it seems there is always something new to be said about him; some new light to be shed on his complex character.

In this latest study of the contrast between the man and the legend, Terry Coleman clearly intends to be provocative—and he succeeds. His first chapter, in which he sets out his stall, contains such contentious phrases as, “in the last five years of his life he was unhinged.” Unhinged is not the word that springs most readily to mind when contemplating Nelson's remarkable two-year tour of duty as commander-in-chief of the Mediterranean fleet in 1803-05, during which he kept his ships constantly at sea, and his men healthy and happy, before leading them halfway across the world and back again. But then, Mr Coleman glides over this crucial period in Nelson's professional career in a cursory chapter of just ten pages.

All the same, this book deserves to be taken seriously. At over 400 pages, it is a solid tome, handsomely produced with an attractive typeface and some interesting, and sometimes unusual, illustrations. The text is lucid and readable and is obviously based on extensive research in primary sources, all of which are faithfully recorded in the excellent footnotes (a rarity in Nelson biographies). In particular, the author has made more use than any previous biographer of letters to Nelson in the British Library, and so offers

new insights, based on what other people thought about the hero. He has also brought the practised eye of a distinguished journalist and historical writer to bear on some of the popular stories about Nelson that have been handed down from biography to biography, without properly testing the reliability of the original sources. He shows that several are pure hagiography and, as he rightly suggests, “those who look to find a saint will miss the man.”

In the end, however, the view Mr Coleman presents of Nelson is too one-sided. He does pay tribute to his physical courage, and to his greatness as a naval commander—although this last aspect is not much analysed in this book. We learn little, for example, about his extraordinary sea chase to Egypt where he surprised the French fleet at anchor in Aboukir Bay and destroyed it in a terrible night battle.

But, in the end, his thesis that Nelson was a “natural born predator” depends too much on omission and over-simplification. There is little in this book of the admiral who was so loved by his ordinary sailors that some broke down crying when they heard of his death; nor of the devoted family man, remembered by one of his nephews as a gentlemanly host presiding modestly at his own table and by his daughter's nurse as a besotted father sitting on the floor, playing with his little girl; nor, above all, of the inspiring leader who reduced some of his captains to tears of excitement when they heard of his plans for beating the Franco-Spanish fleet.

Nelson and Wellington met briefly in the summer of 1805 and long afterwards the duke recalled that Nelson could be two quite different people: one “vain and silly” and the other “a very superior man”. Mr Coleman's book offers a vivid and challenging picture of the vain and silly (and ruthless) Nelson; but the very superior man appears too seldom for this to be a truly balanced, or fair, biography.

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About sponsorship

British anti-heroes

Unattributable

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PEOPLE who knew Anthony Blunt remember his wit, his courtesy and his great appetite for enjoyment. Students and fellow scholars recall his exhilarating lectures on baroque art, and his promotion of art history as a serious discipline in Britain from his base at London's Courtauld Institute. Admirers of Poussin and Borromini, the painter and the architect he loved most, will know his revelatory work on these great 17th-century practitioners.

Anthony Blunt: His Lives
By Miranda Carter

Farrar, Straus and Giroux; 590 pages; $30.
Macmillan; £20

Buy it at
Amazon.com
Amazon.co.uk

Most of us, however, will not have met Blunt personally and probably won't be familiar with his scholarly writings. Ours is a different Blunt, at once more public and more secret, a slippery and notorious figure who spied for the Russians while looking after the queen's paintings, yet who rose to the heights of Britain's intellectual establishment. The intrigue is all the greater since Britain's spywatchers seem to have known about Blunt early on. How many angles was he playing?

A communist at Cambridge in the 1930s, Blunt spied for the Soviet Union on and off from 1938 (when it wasn't a British ally) to the end of the second world war (during most of which it was). His usefulness seems to have ended when the war did, though for a time afterwards he may have continued to run errands for his Russian minders.

Compared with the true villain of the Cambridge spy ring, Kim Philby, a long-serving and treacherous senior officer in British intelligence, Blunt was a minor player. Perhaps this was why he was left untouched after suspicion fell on him in the early 1950s. A further protection may have been his growing eminence and his job as keeper of the queen's collection (he was knighted for services to art in 1956). For whatever reason, in 1964 the government gave him immunity from prosecution in return for information—it turns out he hadn't much to tell—about other spies.

By the late 1960s, it was an open secret in London that Blunt had been a Soviet agent. Keeping it out of the press became ever harder, and in 1979 Margaret Thatcher, unmoved by the fuss it would cause at court and in the intelligence services, confirmed the fact in Parliament. Blunt lost his knighthood and many academic honours. His lawyer advised him that, as he no longer had a reputation to lose, he had no recourse against the defamatory inventions that poured from the press until his death in 1983—and beyond. Amid hypocritical expressions of shock at what had been known for years, London University behaved with rare credit. Its governing assembly voted not to remove his emeritus professorship—with the encouragement, it is said, of the Queen Mother herself, who remembered Blunt fondly from the print room at Windsor.

It is hard to imagine a story happening quite like this except in England. It could be played for laughs, for scorn or for pity. John Banville made it a novel, “The Untouchable” (1997). Miranda Carter tells it straight, with assiduous reporting based on interviews and secondary reading. She takes us from his birth at Bournemouth in 1907 to Paris, where his vicar father won a sought-after living as embassy chaplain. Thence to Marlborough and Cambridge, where she notes his every passing affair with other promising young men.

Foreign as it obviously feels to her, Ms Carter works hard to understand Blunt's milieu. Her instincts are good and her implied judgment of him as neither villain nor victim rings sound. Rarely does she let speculation outrun available facts and she is honest about not knowing, in the end, how Blunt's lives cohered. Some of his closest friends seem not to have known either. Ms Carter is over-literal in linking his love of complex artists to his own intricate character. Yet she is surely right that his commitment to art and its history was dominating and completely sincere.

“Anthony Blunt: His Lives” is too long, and leans too heavily on those famously dependable sources, ex-Soviet spies. Fewer pages were needed on Blunt's espionage and love life, more on his lasting art-historical contributions. But as a portrait of an enigma, it is as good as we are likely to get—or wish for—at this remove.

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About sponsorship

History of narcotics

Everyone did it

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The Pursuit of Oblivion: A Global History of Narcotics, 1500-2000
By Richard Davenport-Hines

Weidenfeld & Nicolson; 480 pages; £20

Buy it at Amazon.co.uk

“ABSOLUTE sobriety is not a natural or primary human state,” asserts Richard Davenport-Hines at the beginning of this voluminous and comprehensive history of drug-taking. The evidence he produces is overwhelming. For the past three centuries (he barely glances at the previous two), humanity has found ever more ingenious and effective routes to oblivion. Until the second half of the 19th century, governments made little serious effort to intervene.

Apart from the ubiquitous desire to get stoned, the other constant attribute of the past is hypocrisy. Narcotics, it emerges, have always been a passion mainly of the upper classes and the lower orders. The first group tends to grumble about the debauchery of the second. There, for instance, is Samuel Taylor Coleridge demanding “legislative interference” because he was shocked by the quantities of laudanum (opium in alcohol) sold by country druggists to the poor. Rather rich from a man whom Dorothy Wordsworth described as “the slave of stimulants”.

However, he was not alone. Every familiar name in British history, it seems from Mr Davenport-Hines's painstaking research, was swallowing, sniffing or (after the helpful invention of the hypodermic syringe) injecting something. George IV's “ungovernable” affection for laudanum (and cherry brandy) horrified the increasingly prim middle classes: he needed 100 drops of laudanum before he could face Lord Aberdeen, the foreign secretary. William Wilberforce, scourge of slavers, ascribed to opium his powers of public speaking. Wilkie Collins described in his novels how boredom and the social stigma of alcohol consumption drove wealthy Victorian women to share his addiction to laudanum.

Hypocrisy marked Britain's approach to the drug trade in the 18th and 19th centuries. In spite of the scruples felt by William Ewart Gladstone, that puritanical prime minister, who sipped laudanum before appearing in the House of Commons, great trading barons such as the founders of Jardine Matheson made fortunes from shipping opium to China. In the 1890s, the British government was still dithering over allowing its colonies to export drugs.

A greater hypocrisy has coloured the 20th century's approach, and especially that of the United States. America was quick to ban the sale and consumption of heroin and cocaine: by 1919, it had even banned maintenance prescriptions by doctors to suffering addicts, something that Britain long allowed. And, while the British government was deeply reluctant to outlaw hashish in the 1920s, America pushed through an international agreement to do so. But drugs produced by pharmaceutical companies escaped such treatment. Barbiturates became one of the century's most popular drugs. American troops in Vietnam were fed huge quantities of amphetamines, in order to stimulate their fighting zeal. When President Nixon came to the White House and launched a “war” on drugs, American pharmaceutical companies were producing 8 billion amphetamines a year. The 1972 Vienna convention, which constrains national drug policies, treated such stimulants and depressants far more lightly than heroin, cocaine and marijuana.

Mr Davenport-Hines's prejudices are firmly on the side of the liberalisers. “Drugs remain dangerous, but they can also be rewarding to both suppliers and users; accordingly they remain ineradicable,” he argues. In a few final paragraphs, he suggests some wiser policies than the harsh criminalisation of the past 30 years that has over-crowded prisons with narcotics offenders and manifestly failed to alter people's drug habits.

His book's main shortcoming is a lack of sign-posting, so that chapters often lack argument or form. Had he allowed the passion of his final argument to shape his account, he would have written an even better book.

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About sponsorship

Strange tycoons

Tissue of truth

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Hughes: The Private Diaries, Memos and Letters
By Richard Hack

New Millennium Press; 456 pages; $28

Buy it at
Amazon.com
Amazon.co.uk

UNLIKE the steel and railroad barons of an earlier American era, Howard Hughes was a strictly 20th-century billionaire. He inherited some money—the fruits of the Hughes Drill Bit which was invented and patented by his father and became widely used in the oil industry—but his real money he made out of flying, the movies and Las Vegas, none of which existed, at least not as we know them, before 1900.

Hughes Aircraft, the aeroplane design business that grew out of his family company, expanded quickly after the second world war into military electronics. By the end of 1946, Hughes's personal fortune had risen to $520m. But it was the takeover of TWA that thrust him into the billionaire bracket, and then, because of his increasingly bizarre way of doing business, into the lunatic twilight of his later years.

Had he stuck to making money, Hughes might well have been forgotten by now. Yet his reputation as an eccentric recluse has ensured his lasting fame. In 1971, McGraw-Hill was about to publish Hughes's autobiography when it learned that the book was an elaborate hoax for which its authors, Clifford Irving and Richard Suskind, would later go to jail.

Known of but unknowable, Hughes was always going to be a biographer's dream. Richard Hack, an investigative reporter who writes mostly about Hollywood, sketches out the Hughes mythology—award-winning film producer and ungiving entrepreneur as well as legendary Lothario. But it is in the use he makes of court documents, declassified FBI files and more than 8,000 pages of memos that Hughes wrote in lieu of a diary that Mr Hack really brings his subject to life.

Born in 1905, Hughes was a thin baby and a fussy eater. For as long as she could, his fretful mother inspected his underwear for signs of tapeworm. Hughes grew up frightened of women and resentful of intimacy. He abandoned his first wife, Ella Rice. He and the second Mrs Hughes, Jean Peters, occupied separate bungalows in the grounds of the Beverly Hills Hotel. Eventually he left her, and when she followed him in order to demand why, he would not allow her in to his hotel room for fear of germs.

As he grew older, Hughes spent longer and longer in the bathroom. Much of that time he devoted to rubbing his skin with alcohol and covering every available surface with white tissues. He was also a prodigious user of pharmaceutical drugs, particularly Valium and morphine.

In the two years it took for Hughes to build his Las Vegas empire in the late 1960s, his bed sheets were changed only five times, his room was never vacuumed at all and the cupboards filled up with jars of his urine. At the end of that time, he gave a press briefing by speakerphone to seven journalists, in part so as to discredit his would-be autobiographer, Mr Irving. Sedated and lying quite naked on a Barcalounger, Hughes, Mr Hack reports, “gave the performance of his life”. He laid in to his enemies and laughed away rumours about his fingernails. His interviewers, it seems, believed him.

There is only one thing more bizarre in this story than the barmy billionaire himself, and that is the rest of the world's willingness to suspend its disbelief. Because he was rich Hughes was regarded merely as eccentric. Had he been poor, he would have been locked up.

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Asian film

Song of Song's

Nov 22nd 2001 | PUSAN, SOUTH KOREA
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A gem from the Pusan film festival

THE finest film—one of 200 at Asia's finest film festival, at Pusan, earlier this month—was homegrown. “Flower Island” is one of those rare films that can change your perception of what film making is for. Like Andrei Tarkovsky's “The Sacrifice” or Krzysztof Kieslowski's “Three Colours: Red”, it is a spiritual film in which filmgoers of every racial, religious or irreligious hue can recognise something of themselves. It is no coincidence that its novice director, 30-year-old Song Il-Gon, learnt his craft at the Polish national film school in Lodz, where Mr Kieslowski also trained.

“Flower Island” is about faith—not in a supernatural sense but in the power of hope to work human miracles. Three women meet by chance. They have unhappy histories—one is a rape victim, another has been drawn against her will into prostitution, the third is suffering from cancer of the tongue which will end her singing career. Two of them board the wrong bus, ending up in the frozen north rather than the milder south, where they rescue the cancer patient from a suicide bid.

This is only the film's prelude, introducing the characters and setting the mood in a succession of close-ups. The sequence in which cancer is revealed, through X-ray plates and the surgeon's matter-of-fact prognosis, raises questions of its own. Can cancer be a divine punishment? The singer, we learn, has promised her God not to use the gift of voice for personal gain, and she has broken that pledge. Just as the film begins to sound preachy, however, it takes a fresh turn. There is a place in the southern sea called Flower Island where, legend has it, troubles melt away. Does it exist? The women decide to see for themselves, before it's too late. Trudging through the snow, they make their way down the Korean peninsula to the south coast, perhaps to Pusan itself, where they board a boat for their final destination.

Magic plays a big role here. One, two, three, a mother makes her child's pet tortoise vanish. At the end, the same trick is played on one of the women, and this proves the beginning of the end of her trials. All three women are bound to their past, but gain a new confidence in life and a chance to change their circumstances. Mr Song never dictates to the audience what they should make of his remarkable film. But few viewers lucky enough to see it will deny that the experience is intensely moving and touches the soul.

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New fiction

Out of the ordinary

Nov 22nd 2001
From The Economist print edition

THERE is nothing flashy about Alice Munro's short stories. They are, on the face of it, as plain and homely as her characters—mostly middle-aged married women who live unassuming lives in small towns in Ms Munro's native Canada. Yet she is one of the most accomplished and downright exhilarating writers working today. Her human understanding is acute. From rather unpromising-sounding subject matter she fashions short stories of extraordinary delicacy and resonance.

Hateship, Friendship, Courtship, Loveship, Marriage
By Alice Munro

Knopf; 326 pages; $24.
Chatto and Windus; £14.99

Buy it at
Amazon.com
Amazon.co.uk

"Hateship, Friendship, Courtship, Loveship, Marriage", her latest collection, finds Ms Munro on top form. Its big themes are loss, illness, death, missed opportunities and memory—in particular, fleeting moments of happiness recalled in less cheerful times. In the space of just a sentence or two Ms Munro can reveal surprising depths of feeling.

In "Family Furnishings", for instance, the narrator responds with a kind of bitter dignity to her mother's declining health by becoming a fanatical housekeeper. "It was done to make it seem as if I lived with my parents and my brother and my sister in a normal family in an ordinary house," she explains, "but the moment somebody stepped in our door and saw my mother they saw this was not so and they pitied us. A thing I could not stand."

The structure of Ms Munro's stories is never complicated, though they often involve artful leaps backwards or forwards in time, which enable her credibly to accommodate changes in her characters' circumstances and attitudes over the years. In "What is Remembered" a woman reflects on the giddy pleasure of a just-committed infidelity. She tells herself that she must fix every last detail in her mind and store it away—"This day's experience, set in order, none of it left ragged or lying about, all of it gathered in like treasure and finished with, set aside."

Later, in a devastating stroke, Ms Munro exposes the element of self-deception in this wish, when the woman, older now, remembers a long-suppressed detail of her parting from her lover. Moving towards him for a final kiss, he refuses point blank. "I never do," he says matter-of-factly. Here, as elsewhere in this collection, the meticulous accumulation of detail over the course of the story gives a wholly satisfying sense of psychological development and dramatic fullness.

The greatest pleasure of reading Ms Munro, though, is the prose itself: unaffected, modest, quietly elegant. She can be wonderfully evocative too. In one of the stories in this outstanding collection, a woman stands on a floating wooden bridge at night, entranced by the beauty of her surroundings:

> The slight movement of the bridge made her imagine that all the trees and the reed beds were set on saucers of earth and the road was a floating ribbon of earth and underneath it all was water. And the water seemed so still, but it could not really be still because if you tried to keep your eye on one reflected star, you saw how it winked and changed shape and slid from sight. Then it was back again—but maybe not the same one.

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Victoria and Albert Museum

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From The Economist print edition

In its superb new British Galleries, the Victoria and Albert Museum in London has the scope to show off items once hidden in store, such as this sumptuous embroidery from Stoke Edith House in Herefordshire, depicting an idealised early 18th-century garden. Admission is free—as it will be at all public museums in Britain from December

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Mathematical breakthroughs

So prove it

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MODERN mathematics is a perplexing business. Not only is it difficult to do, but mathematicians usually find it near impossible to explain to non-specialists. Julia Robinson, a mathematical logician, when asked by the personnel department at the University of California at Berkeley for a description of how she spent her days, wrote: “Monday—tried to prove theorem, Tuesday—tried to prove theorem, Wednesday—tried to prove theorem, Thursday—tried to prove theorem, Friday—theorem false.” Similarly, when Fermat's Last Theorem was proved by Andrew Wiles in 1995, the story even inspired a Broadway musical. But explaining the proof to a general audience is almost as much of a challenge as proving the result in the first place.

Mathematical Mountaintops: The Five Most Famous Problems of All Time
By John L. Casti

Oxford University Press; 190 pages; $25 and £19.95

Buy it at
Amazon.com
Amazon.co.uk

John Casti attempts in this book to give an account of the Fermat proof and four other 20th-century mathematical breakthroughs. These include the four-colour conjecture about the colouring of maps, where regions sharing a border must have different colours. The conjecture, first posed by Francis Guthrie in 1852, claims that every possible map can be coloured with four or fewer colours. It was shown as early as 1890 that any map can be coloured with five colours, but it was not until 1976 that Kenneth Appel and Wolfgang Haaken, at the University of Illinois, finally showed that the four-colour conjecture was correct. Their immensely long proof made extensive use of a computer, and involved checking more than 1,000 special cases.

Another of Mr Casti's five is even older. It was posed by Johannes Kepler, who conjectured in 1611 that the densest way to pack spheres in three-dimensional space is the “face-centred cubic” or pyramid pattern, familiar from oranges on fruit stalls. (Historically, Kepler's problem was prompted by a question from Sir Walter Raleigh about piling cannonballs.) The conjecture withstood attack for centuries, although a two-dimensional version was solved in 1890. A solution eventually came in 1998, when Thomas Hales, at the University of Michigan, showed with a long computer-aided calculation that the conjecture was correct.

The other results that Mr Casti discusses—the continuum hypothesis (that there are no infinities between the counting numbers and the real numbers) and David Hilbert's tenth problem (about the mechanical solvability of certain equations) also display the trademarks of modern mathematics: a combination of traditional problem-solving with new theory and sometimes heavy use of computing. The writing is always lively, although there are minor errors. Nevertheless, Mr Casti provides a fascinating picture of some important events in the mathematical world over the past century.

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Egyptian archaeology

Professional passions

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From The Economist print edition

LUXOR, in the early 1900s, was a glitzy tourist resort. At the Winter Palace hotel, Egyptologists mixed with English aristocrats and American tycoons lobbying for a concession from the antiquities service to open up an ancient tomb. Less glamorous visitors came at a rate of 50,000 a year on package tours arranged by Thomas Cook, already then a well-established travel agency.

A Passion for Egypt: Arthur Weigall, Tutankhamun and the "Curse of the Pharaohs"
By Julie Hankey

I.B.Tauris; 380 pages; £22.50

Buy it at
Amazon.com
Amazon.co.uk

For Arthur Weigall, a young British inspector of antiquities in upper Egypt, entertaining wealthy would-be excavators was part of the job. As well as feuds with fellow archaeologists, Weigall had to cope with squabbling bureaucrats, tomb-robbers, prickly Egyptian officials and a demanding, spendthrift wife. Julie Hankey, Weigall's grand-daughter and a reviewer for *The Economist*, has unbundled a fascinating family archive. Intense, driven yet sociable, and filled with enthusiasm for making antiquity accessible through his writing, Weigall was a prolific correspondent. "The big steamers go up the Nile," he wrote, "and they vomit out their passengers along the route of interest. It is a luxurious way of seeing Egypt but what can one see of the real Egypt from the red-carpeted saloon deck of a steamer?"

Weigall was born in 1880, the son of an India army officer and a mother who, in widowhood, worked for an evangelical mission in the slums of Manchester. As a trainee accountant, he studied Egyptian hieroglyphs in his spare time, and later enrolled at Oxford University. He left without a degree to work for the legendary archaeologist Flinders Petrie, fulfilling a dream of digging in Egypt but ruining his prospects of eventually landing an academic job.

Ms Hankey highlights Weigall's sustained opposition to the official policy of allowing rich amateurs to carry out what amounted to the licensed looting of antiquities: excavators were permitted to take home some of the choicest finds. In spite of his energy and enthusiasm for recording and protecting the tombs around Luxor, he became unpopular with his bosses in Cairo. Drummed out of Egypt in 1914 over accusations of involvement in antiquity dealing, Weigall designed sets for musical revues that helped cheer up Londoners during the first world war. He returned when Lord Carnarvon's discovery of King Tutankhamun's tomb was announced in 1922, though in a very different role: as a budding novelist and film critic, on assignment for the *Daily Mail*.

In spite of Carnarvon's exclusive deal with the *Times*, his assistant Howard Carter—a former colleague and rival—was unable to keep Weigall away from the Valley of the Kings. Indeed, Weigall's public row with Carnarvon over the attempt to monopolise information about the discovery and a sharp-tongued series of articles in the *Daily Mail* contributed to ending the pernicious concession system and making Egyptian archaeology a more professional activity.

Weigall died in 1934, a well-known novelist (several of his books had already been made into films) and popular biographer of controversial ancient figures like Nero, Sappho and Cleopatra. But he never won the scholarly recognition he craved.

Ms Hankey puts his archaeological achievements into their context. Her vivid and perceptive account of Weigall and the cultural politics of early modern Egypt make this biography much more than an engaging period piece.

KERIN HOPE

Our policy is to identify the reviewer of any book by or about anyone closely connected to *The Economist*

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About sponsorship

Nathan Pusey

Nov 22nd 2001
From The Economist print edition

Nathan Marsh Pusey, a leader of Harvard, died on November 14th, aged 94

Get article background

UNTIL the morning of April 9th 1969 Nathan Pusey had enjoyed an outstandingly successful career as president of Harvard University. In the 17 years he had held the job its endowment had grown from $304m to more than $1 billion. As well as being a skilful raiser of money, Mr Pusey was a reformer. He took the view that privately educated students did not have a monopoly of brains, and the majority at Harvard were now from less privileged backgrounds.

On that warm spring morning Mr Pusey could reasonably feel that he had done well for America's foremost centre of higher education. He seems to have been puzzled when he first heard unaccustomed noises within University Hall, the administration building. Someone was shouting in a megaphone, someone was playing “Revolution”, a Beatles song. It soon became clear that the turmoil involved a large number of students, and some teachers had been manhandled. Mr Pusey's puzzlement turned to concern. The students were now occupying University Hall, and demanding that “the Harvard corporation” must “yield to our demands”. When evening came with the hall still occupied Mr Pusey sent for the police. They arrived along with state troopers who were wearing riot gear and armed with tear gas. With enthusiasm, the forces of law and order, not a Harvard man among them, rapidly cleared the hall, injuring 45 of the 250 students in the sit-in. Next day's newspapers bemoaned the bloody attack on the flower of American culture. Had Nathan Pusey panicked?

Mr Pusey said he had called in the police to defend academic freedom. Student violence should not be allowed to interfere with the normal running of the university. His critics said that the students' demands were modest. One was to end Harvard's military training programme, which was seen as supporting the Vietnam war. Another was to lower the rents of some slum properties owned by the university. Both, it was thought, could have been dealt with by negotiation. In Oxford, it was said, such students would have simply been told not to be silly and sent back to their books. Mr Pusey was affronted when no student was permanently expelled. A few months later he said he was resigning. He left in 1971.

A swot in the jazz age

Nathan Pusey was the first non-New Englander to be made head of America's oldest college (founded 1636). He was born in the mid-western state of Iowa. His father died when he was a baby. His mother brought up three children on a pittance she earned as a schoolteacher. Mr Pusey always sought to pay his teachers well. He won a scholarship to Harvard in the 1920s. It was a glamorous time for some Harvard students in Scott Fitzgerald's jazz age, but for Mr Pusey it was all hard grind keeping to the tough terms of his grant.

His uncompromising upbringing may have marked his life. He was a devout Episcopalian (Anglican) and liked to remind his staff, many of whom were non-churchgoers, that Harvard had been founded by a religious group. He deplored the “almost idolatrous” secular society. Politics, he said, should not intrude into university life. When Joe McCarthy, an influential senator, accused Harvard in the 1950s of being a “sanctuary” for communists, Mr Pusey sniffily replied that his students were “above that sort of thing”. It was brave at that time to stand up to the populist red-baiter, but the sentiment may have seemed naive.

Since his death his friends have remarked on his “decency”, “his firm beliefs”, that he was “rich in piety” and other sober qualities, but no tales have been offered of a lighter side. Roger Rosenblatt, a teacher at Harvard in Mr Pusey's time, wrote in his book of memoirs, “Coming Apart”, that the majority of the liberal faculty thought their president “a patrician pighead”. His face, they said, resembled “an institution”.

Perhaps they were jealous. In making money for Harvard Mr Pusey demonstrated to all universities that they need not be paupers. Before running Harvard he was president of Lawrence, a more modest college in Wisconsin. In his nine years there he showed what could be done by doubling the endowment. The lesson has been well learnt by Mr Pusey's successors. Harvard's endowment is now a stupendous $18 billion.

As education is an ever-interesting Aunt Sally, inevitably there are critics of the academic art of money-squeezing. The taunt of the rebels of 1969 that Harvard was a “corporation” has, some believe, come true. In “Making Harvard Modern”, by Phyllis and Morton Keller, published in October, the university is seen as having the characteristics of a multinational. Its vast bureaucracy with buckets of money to invest overshadows what was once seen simply as a community of scholars.

Nathan Pusey, for all his financial skills, was at heart a scholar. He said that one of the happiest times of his life was spent at the American School of Classical Study in Athens in the 1930s. Greece of the fifth century was his special interest, and the subject of many of his essays and speeches. He gained a doctorate with a dissertation on Athenian democracy. He would probably prefer to be remembered for that.

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Overview

Nov 22nd 2001
From The Economist print edition

America's industrial production fell by 1.1% in October, the 13th consecutive month of decline and the longest unbroken fall since 1932; output was 6.3% lower than a year ago. However, the index of leading economic indicators compiled by the Conference Board rose by 0.3% in October, after two months of sharp declines. American consumers also seem to be regaining confidence. The University of Michigan's survey of consumer sentiment rose in November for a second month in a row. The number of people filing new claims for unemployment benefit also fell for a fourth week, to 427,000, the lowest since the September 11th attacks.

America's consumer-price index fell by 0.3% in October, thanks largely to lower oil prices. This was its biggest fall since 1986. The 12-month inflation rate fell to 2.1%, from 3.4% in October 2000. America's trade deficit in goods and services posted its biggest monthly fall on record in September, down to $18.7 billion from $27.1 billion in August. This largely reflected a sharp increase in insurance payouts from overseas companies after the terrorist attacks; and a fall in international travel as businesses and consumers stayed at home.

The Dow Jones Industrial Average rose to within spitting distance of 10,000, its highest level since early September, before falling back a little.

Americans may be finding glimmers of hope, but the news from Europe is getting grimmer. In the third quarter, **Germany's** GDP fell by 0.1%, after being flat in the second quarter. The Ifo business-confidence indicator, widely seen as a reliable indicator of growth in Europe's biggest economy, fell in October to its lowest in eight years. This suggests that GDP will remain weak in the current quarter. German construction orders fell by 8.1% in the year to September.

Industrial production in the **euro area** fell by 0.5% in September, after a rise of 1.5% in August. This left output 0.6% lower than a year earlier. Spain's industrial production fell by 2.5% over the same period. The euro area's inflation rate slowed to 2.4% in October, down from a high of 3.4% in May.

Money-supply growth has been accelerating this year in most rich economies. In the year to October, broad-money growth was 13% in America, its fastest since 1981; it was 8.1% in Britain.

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Output, demand and jobs

Nov 22nd 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.1	+ 3.1	– 0.4 Q2	+ 5.8 Q3	7.1 Oct	6.0
Austria	+ 0.2	+ 1.2 Q2	+ 1.5	+ 1.3	+ 1.6 Aug	– 1.1 Jul	3.9 Sep	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.4	+ 1.4	– 2.3 Sep*	+ 2.8 Aug	11.7 Sep*	11.5
Britain	+ 2.1	+ 2.1 Q3	+ 2.2	+ 1.8	– 3.0 Sep	+ 5.7 Oct	5.1 Sep†	5.4
Canada	+ 0.4	+ 2.1 Q2	+ 1.5	+ 1.5	– 3.2 Aug**	+ 3.5 Jun	7.3 Oct	6.9
Denmark	+ 2.3	+ 1.3 Q2	+ 1.2	+ 1.5	– 3.2 Sep	– 0.5 Aug	5.0 Sep	5.5
France	+ 1.1	+ 2.3 Q2	+ 1.9	+ 1.3	+ 1.0 Sep	– 1.2 Sep	8.9 Sep	9.4
Germany	– 0.4	+ 0.3 Q3	+ 0.7	+ 0.9	– 2.6 Sep	– 2.1 Sep	9.5 Oct††	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.2	– 4.3 Sep	+ 0.2 Aug	9.4 Jul	10.5
Japan	– 2.9	– 0.7 Q2	– 0.6	– 0.5	–12.7 Sep	– 2.5 Sep	5.3 Sep	4.7
Netherlands	– 1.4	+ 0.4 Q3	+ 1.3	+ 1.4	– 2.2 Sep	+ 2.3 Aug	2.0 Oct§	2.6
Spain	+ 1.9	+ 2.9 Q2	+ 2.7	+ 2.0	– 2.5 Sep	na	13.0 Sep	13.8
Sweden	+ 0.8	+ 1.1 Q2	+ 1.7	+ 1.9	– 1.3 Aug	+ 4.3 Sep	4.0 Oct*	4.0
Switzerland	+ 1.7	+ 2.0 Q2	+ 1.5	+ 1.2	+ 4.2 Q2*	+ 1.7 Sep	1.9 Oct*	1.7
United States	– 0.4	+ 0.8 Q3	+ 1.0	+ 0.8	– 6.3 Oct	+ 0.9 Sep	5.4 Oct	3.9
Euro area	+ 0.4	+ 1.7 Q2	+ 1.5	+ 1.2	– 0.6 Sep	+ 1.8 Aug	8.3 Sep	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 6.7	+ 0.4 Q2	na	na	– 3.5 Sep	+ 3.9 Jul	8.9 Oct*	8.9
Greece	+ 2.8	+ 4.9 Q2	na	na	+ 0.3 Aug*	+ 8.3 Jul	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.2 Sep	1.2
Ireland	na	+13.2 Q1	na	na	+ 3.8 Sep*	+ 2.1 Aug	3.9 Oct	3.7
Luxembourg	na	+ 8.52000	na	na	– 3.0 Aug*	+ 9.5 Aug	2.5 Sep	2.6
New Zealand	+ 7.4	+ 2.8 Q2	na	na	+ 3.5 Q2*	+ 6.3 Q3	5.2 Q3	5.8
Norway	+ 0.5	+ 1.4 Q2	na	na	+ 1.9 Sep*	+ 0.3 Sep	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	– 0.2 Sep*	+ 3.9 Sep	4.0 Q3	4.0

*Not seasonally adjusted. †Jul-Sep; claimant count rate 3.2% in Oct. §Aug-Oct. **New series. ††EU harmonised rate 8.0% in Oct.

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Prices and wages

Nov 22nd 2001
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.2	+ 2.5	+ 2.4	Q3	+ 7.2	+ 3.6	Q3	+ 6.5
Austria	+ 2.6	Oct	+ 2.8	+ 2.5	+ 1.5	– 0.5	Oct	+ 6.0	+ 2.9	Sep	+ 1.9
Belgium	+ 2.4	Oct	+ 3.0	+ 2.5	+ 1.6	– 0.2	Sep	+10.8	+ 3.7	Q3	+ 1.4
Britain	+ 1.6	Oct	+ 3.1	+ 2.1	+ 2.2	– 0.6	Oct	+ 2.7	+ 4.4	Sep	+ 4.1
Canada	+ 1.9	Oct	+ 2.8	+ 2.8	+ 1.9	+ 0.5	Sep	+ 4.0	+ 1.4	Aug	+ 2.6
Denmark	+ 2.2	Oct	+ 2.7	+ 2.3	+ 2.0	– 0.3	Oct	+ 6.9	+ 4.7	Q2	+ 3.3
France	+ 1.8	Oct	+ 1.9	+ 1.8	+ 1.2	– 0.2	Sep	+ 6.6	+ 4.2	Q2	+ 5.4
Germany	+ 2.0	Oct	+ 2.4	+ 2.5	+ 1.3	– 1.1	Oct	+ 7.4	+ 2.3	Sep	+ 2.1
Italy	+ 2.5	Oct	+ 2.6	+ 2.7	+ 1.7	+ 0.4	Sep	+ 6.7	+ 2.4	Sep*	+ 1.7
Japan	– 0.8	Sep	– 0.8	– 0.7	– 0.7	– 0.5	Oct	+ 0.3	– 0.5	Sep*	+ 1.5
Netherlands	+ 4.3	Oct	+ 3.1	+ 4.7	+ 2.2	+ 0.5	Sep	+ 8.8	+ 4.1	Sep	+ 3.4
Spain	+ 3.0	Oct	+ 4.0	+ 3.7	+ 2.3	+ 0.6	Sep	+ 5.5	+ 2.9	Q2†	na
Sweden	+ 2.7	Oct	+ 1.4	+ 2.4	+ 1.9	+ 1.1	Sep	+ 4.0	+ 3.2	Aug*	+ 3.3
Switzerland	+ 0.6	Oct	+ 1.3	+ 1.3	+ 1.1	– 1.4	Oct	+ 2.6	+ 1.3	2000	+ 0.3
United States	+ 2.1	Oct	+ 3.4	+ 3.0	+ 1.8	– 0.4	Oct	+ 3.7	+ 4.1	Oct	+ 3.9
Euro area	+ 2.4	Oct	+ 2.7	+ 2.6	+ 1.6	+ 0.7	Sep	+ 6.3	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Oct	+ 4.1	na	na	– 3.5	Oct	+ 9.6	+ 4.5	Q3*	+ 4.9
Greece	+ 2.8	Oct	+ 4.0	na	na	+ 1.7	Sep	+ 9.2	na		na
Iceland	+ 8.1	Nov	+ 4.6	na	na	+ 6.8	Nov	+ 3.9	+ 9.1	Oct	+ 7.8
Ireland	+ 4.3	Oct	+ 6.8	na	na	+ 2.6	Sep	+ 6.4	+ 9.1	Q2*	+ 7.0
Luxembourg	+ 2.3	Oct	+ 3.4	na	na	– 0.4	Aug	+ 6.9	+ 3.4	Aug*	+ 7.0
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 8.1	Q2	+ 5.9	+ 2.0	Q3	+ 1.5
Norway	+ 2.2	Oct	+ 3.1	na	na	–19.1	Oct	+ 7.4	+ 4.4	Q2*	+ 3.9
Portugal	+ 4.1	Oct	+ 3.5	na	na	– 1.3	Sep	+13.9	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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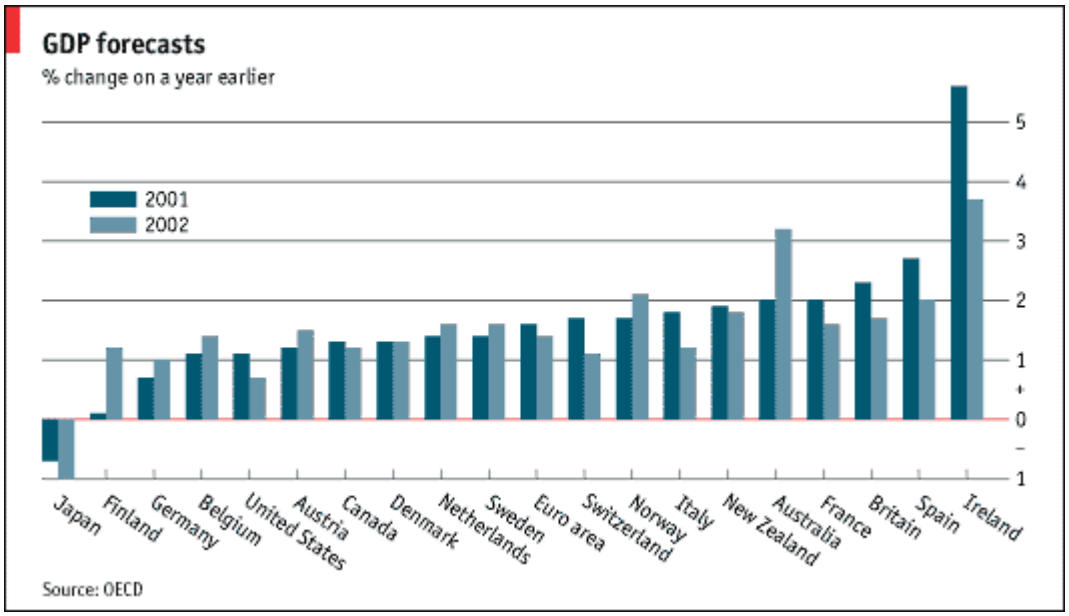
GDP forecasts

Nov 22nd 2001
From The Economist print edition

The overall output of the OECD club of rich economies is estimated by the OECD to be falling for the first time in 20 years. But, according to the same forecasts, a rebound is possible by the second half of 2002. Average OECD output is expected to grow by 1% in 2002. Japan is still tipped to be the weakest economy, with a contraction of 1% next year. America is expected to be the second-weakest, with GDP growth of 0.7% in 2002.



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Money and interest rates

Nov 22nd 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 21st 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+19.1	+ 9.9	Sep	4.30	6.31	4.49	5.80	5.90	6.91
Britain	+ 6.9	+ 8.1	Oct	3.75	6.00	4.29	4.68	4.97	6.01
Canada	+10.4	+ 4.5	Sep	2.21	5.72	3.39	5.48	5.64	6.90
Denmark	+ 3.7	+ 2.9	Sep	3.77	5.60	3.90	4.76	5.39	7.00
Japan	+11.7	+ 3.6	Oct	0.02	0.50	0.06	1.33	1.70	1.45
Sweden	+ 7.3	+ 4.9	Oct	3.73	4.03	4.07	5.01	4.99	4.96
Switzerland	+ 1.8	+ 4.2	Oct	2.15	3.52	2.53	3.11	3.78	4.02
United States	+ 5.6	+13.0	Oct	2.02	6.49	3.09	4.97	5.60	6.71
Euro area†	+ 5.2	+ 7.6	Sep	3.36	5.10	3.32	4.57	5.06	5.27

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.35%, Japan No.234 1.33%. Central bank rates: US fed funds 2.00%, ECB refinancing 3.25%, BOJ overnight call 0.003%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 22nd 2001
From The Economist print edition

1995=100

	Nov 13th	Nov 20th*	% change on one month	% change on one year
Dollar index				
All items	64.6	65.5	+ 5.1	– 8.5
Food	67.2	68.1	+ 4.7	– 3.6
Industrials				
All	61.0	61.9	+ 5.8	–14.9
Nfa†	57.5	57.4	+ 4.1	–16.5
Metals	64.0	65.7	+ 7.0	–13.7
Sterling index				
All items	70.6	72.9	+ 5.4	– 8.5
Euro index				
All items	96.3	97.5	+ 5.8	–12.4
Yen index				
All items	83.4	85.5	+ 4.8	+ 1.7
Gold				
$ per oz	277.40	273.20	– 0.9	+ 2.7
West Texas Intermediate				
$ per barrel	21.78	18.95	–12.3	–46.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Nov 22nd 2001
From The Economist print edition

Market indices

	Nov 21st	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,272.5	3,425.2	2,867.4	+ 0.2	– 4.5	+ 3.7	– 3.5
Austria (ATX)	1,089.7	1,245.8	1,014.3	+ 2.2	–37.3	+ 1.5	– 5.3
Belgium (Bel 20)	2,697.1	3,030.4	2,322.6	– 0.0	–26.7	–10.8	–16.8
Britain (FTSE 100)	5,313.8	6,334.5	4,433.7	+ 1.4	–23.3	–14.6	–19.2
Canada (Toronto Composite)	7,330.9	9,348.4	6,513.1	– 0.3	–35.6	–17.9	–23.0
Denmark (KBX)	220.8	294.3	197.8	+ 1.5	–26.8	–16.6	–22.0
France (SBF 250)	2,936.4	3,820.2	2,335.3	– 0.0	–33.1	–22.1	–27.4
(CAC 40)	4,557.0	5,998.5	3,652.9	– 0.4	–34.2	–23.1	–28.3
Germany (Xetra DAX)	5,087.0	6,795.1	3,787.2	+ 2.7	–36.9	–20.9	–26.2
Italy (BCI)	1,440.7	1,948.4	1,082.9	+ 2.6	–34.0	–24.8	–29.9
Japan (Nikkei 225)	10,661.1	14,529.4	9,504.4	+ 5.7	–72.6	–22.7	–28.3
(Topix)	1,058.6	1,441.0	863.4	+ 3.9	–63.3	–17.5	–23.5
Netherlands (AEX)	498.5	642.3	396.2	+ 0.9	–28.9	–21.8	–27.0
Spain (Madrid SE)	829.6	963.9	648.6	– 0.1	–27.6	– 5.8	–12.1
Sweden (Affarsvarlden Gen)	223.5	293.1	177.5	+ 1.4	–44.2	–19.5	–29.2
Switzerland (Swiss Market)	6,496.1	8,135.4	5,110.2	+ 1.2	–22.8	–20.2	–22.1
United States (DJIA)	9,834.7	11,337.9	8,235.8	+ 0.1	–16.1	– 8.8	– 8.8
(S&P 500)	1,137.0	1,373.7	965.8	– 0.4	–25.6	–13.9	–13.9
(Nasdaq Comp)	1,875.1	2,859.2	1,423.2	– 1.5	–62.9	–24.1	–24.1
Europe (FTSE Eurotop 300)*	1,254.3	1,545.5	998.9	+ 0.7	–26.4	–18.2	–23.7
Euro area (FTSE Ebloc 100)*	1,092.3	1,404.1	843.6	+ 0.9	–29.6	–21.5	–26.8
World (MSCI)†	995.6	1,249.2	856.6	+ 0.2	–31.3	na	–18.5
World bond market (Salomon)‡	445.1	461.7	420.6	– 1.8	– 3.2	na	+ 0.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Nov 22nd 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Nov 21st	Exchange rate trade-weighted† year ago	Currency units per $ Nov 21st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.3 Sep	– 9.9 Q2	– 2.8	– 3.4	72.9	71.5	1.94	1.92	2.74	1.70	1.57	0.1
Austria	– 5.0 Aug	– 4.2 Aug	– 2.6	– 2.5	99.8	98.9	15.7	16.3	22.2	13.8	12.8	-0.6
Belgium	+ 11.0 Sep	+ 8.9 Jun	+ 4.2	+ 4.4	98.7	97.3	46.1	47.8	65.1	40.3	37.4	0.7
Britain	– 47.1 Sep	– 19.2 Q2	– 1.9	– 2.3	105.6	107.6	0.71	0.71	–	0.62	0.57	1.2
Canada	+ 44.4 Sep	+ 25.5 Q2	+ 2.9	+ 1.9	75.3	77.6	1.60	1.55	2.26	1.40	1.30	2.6
Denmark	+ 7.1 Sep	+ 5.2 Sep	+ 2.0	+ 1.9	101.9	99.5	8.50	8.85	12.0	7.44	6.90	2.9
France	– 0.8 Sep	+ 21.8 Sep	+ 1.5	+ 1.6	101.2	99.7	7.49	7.78	10.6	6.56	6.08	-0.5
Germany	+ 66.2 Sep	– 11.6 Sep	– 1.1	– 0.7	98.0	96.2	2.23	2.32	3.16	1.96	1.81	-1.7
Italy	+ 3.0 Aug	– 3.6 Aug	– 0.2	– 0.1	72.2	71.2	2,210	2,296	3,124	1,936	1,795	-1.3
Japan	+ 77.5 Sep	+ 89.4 Sep	+ 2.0	+ 1.8	138.1	156.2	123	110	174	108	–	-6.3
Netherlands	+ 18.7 Aug	+ 13.7 Q2	+ 4.1	+ 4.3	97.5	96.0	2.52	2.61	3.56	2.20	2.04	1.3
Spain	– 38.2 Aug	– 15.4 Aug	– 2.6	– 2.6	74.0	73.0	190	197	268	166	154	nil
Sweden	+ 12.2 Sep	+ 6.3 Sep	+ 2.1	+ 2.2	74.0	78.9	10.72	10.28	15.2	9.39	8.71	3.6
Switzerland	+ 0.3 Sep	+ 27.9 Q2	+10.7	+10.9	113.0	106.2	1.66	1.80	2.35	1.45	1.35	na
United States	–444.5 Sep	–449.9 Q2	– 4.1	– 3.9	121.0	117.5	–	–	1.41	0.88	0.81	2.1
Euro area	+ 14.6 Aug	– 37.4 Aug	– 0.3	– 0.1	77.8	75.3	1.14	1.19	1.61	–	0.93	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.9 Sep	+ 8.0 Sep	na	na	78.0	75.9	6.66	7.05	9.42	5.84	5.41	5.3
Greece	– 7.4 Jun	– 7.3 Jun	na	na	57.2	56.6	382	403	540	335	310	nil
Iceland	– 0.3 Sep	– 0.9 Q1	na	na	na	na	105	90.1	148	91.7	85.0	2.4
Ireland	+ 30.8 Aug	– 1.5 Q2	na	na	86.7	84.7	0.88	0.93	1.25	0.77	0.72	4.5
Luxembourg	– 3.3 Aug	+ 1.2 Q2	na	na	98.6	97.3	45.2	47.8	63.9	39.6	36.7	3.6
New Zealand	+ 0.4 Sep	– 1.9 Q2	na	na	80.1	74.5	2.39	2.50	3.38	2.09	1.94	1.0
Norway	+ 26.9 Oct	+ 26.0 Aug	na	na	97.3	92.7	8.91	9.50	12.6	7.80	7.23	15.3
Portugal	– 13.9 Aug	– 9.1 Aug	na	na	89.0	88.0	225	238	318	197	182	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

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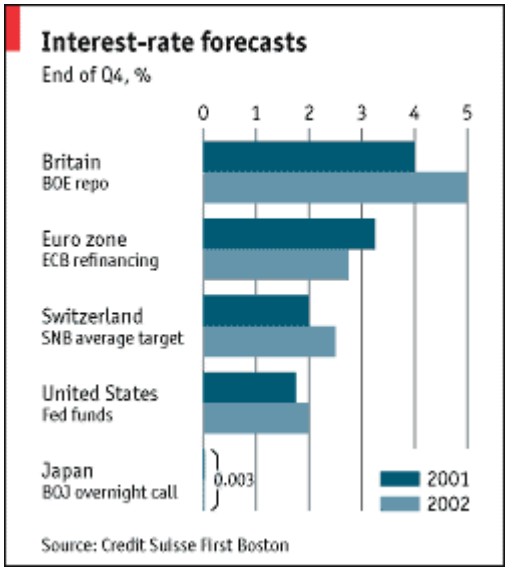
Interest-rate forecasts

Nov 22nd 2001
From The Economist print edition

CSFB forecasts that central-bank interest rates will rise to 5.0% in Britain (from 4.0% now), but fall to 2.75% in the euro area (from 3.25%) by the end of 2002, as the ECB loosens policy.



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Overview

Nov 22nd 2001
From The Economist print edition

The **South African** rand fell to 9.895 against the dollar, an all-time low.

In October, industrial output rose by 3.5% in **Russia** and by 7.7% in **Poland**. Polish consumer prices rose by 4.0%, a record low inflation rate, in the 12 months to October.

Mexico's GDP fell by 1.6% in the year to the third quarter. The decline, Mexico's first since early 1996, was worse than analysts' expectations of a 1.4% drop.

Telephone workers protesting against **Argentina's** austerity measures stormed the stock exchange, halting trading for 20 minutes. Electronic trades were unaffected. The Merval index fell by 7.3% over the week.

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Adult illiteracy

Nov 22nd 2001
From The Economist print edition

Over half those over the age of 15 in Pakistan cannot, with understanding, read and write a short, simple statement about their everyday life. That is the World Bank's definition of adult illiteracy. The highest illiteracy rates are in Africa. But higher income does not guarantee higher literacy. In Egypt, more than 40% of adults cannot read. In Ecuador, with a similar income per head, the illiteracy rate is only 9%.

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Economy

Nov 22nd 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 8.8	Oct	+ 0.2	Oct	+18.6	Oct	+20.5	2000	193.2	Aug
Hong Kong	+ 0.5	Q2	– 0.1	Q2	– 1.2	Oct	–12.3	Sep	+ 8.2	Q2	113.1	Oct
India	+ 4.4	Q2	+ 1.6	Sep	+ 5.2	Sep	– 6.1	Sep	– 0.9	Q2	42.2	Oct
Indonesia	+ 3.5	Q3	+ 7.5	Q1	+12.5	Oct	+24.6	Sep	+ 6.3	Q1	27.8	Aug
Malaysia	+ 0.5	Q2	– 9.7	Sep	+ 0.9	Oct	+15.4	Sep	+ 7.5	Q2	25.4	Sep
Philippines	+ 3.3	Q2	+ 7.8	Aug	+ 5.4	Oct	+ 3.7	Aug	+ 6.0	Jul	12.2	Aug
Singapore	– 5.6	Q3	–22.3	Sep	+ 0.5	Sep	+ 4.2	Oct	+22.6	Q2	75.5	Sep
South Korea	+ 1.8	Q3	+ 5.1	Sep	+ 3.6	Oct	+11.1	Oct	+11.1	Sep	100.0	Sep
Taiwan	– 4.2	Q3	– 6.7	Oct	+ 1.0	Oct	+14.1	Oct	+16.2	Q3	116.2	Oct
Thailand	+ 1.9	Q2	– 1.8	Sep	+ 1.4	Oct	+ 2.6	Sep	+ 6.4	Sep	31.9	Sep
Argentina	– 0.5	Q2	– 7.9	Oct	– 1.7	Oct	+ 4.1	Sep	– 8.4	Q2	20.6	Sep
Brazil	+ 0.8	Q2	– 1.9	Sep	+ 8.2	Oct	+ 0.7	Oct	–26.3	Sep	40.1	Sep
Chile	+ 3.4	Q2	+ 0.1	Sep	+ 3.4	Oct	+ 1.5	Oct	– 1.6	Q2	14.4	Sep
Colombia	+ 1.6	Q2	– 0.8	Sep	+ 8.0	Oct	+ 0.9	Aug	– 0.7	Q2	9.7	Sep
Mexico	– 1.6	Q3	– 5.4	Sep	+ 5.9	Oct	– 9.3	Sep	–17.5	Q2	42.8	Sep
Peru	+ 2.3	Sep	– 3.3	Aug	+ 0.7	Oct	– 0.2	Sep	– 1.4	Q2	8.4	Sep
Venezuela	+ 2.9	Q2	+ 3.2	Aug	+12.3	Oct	+15.6	Q2‡	+11.1	Q2	9.0	Sep
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.1	Sep	– 8.8	Jul	nil	Q2	13.1	Jul
Israel	– 2.7	Q3	–10.5	Aug	+ 2.0	Oct	– 7.1	Oct	– 1.4	Q2	23.8	Oct
South Africa	+ 2.5	Q2	+ 0.5	Sep	+ 4.0	Oct	+ 4.6	Sep	+ 0.4	Q2	6.0	Sep
Turkey	– 9.3	Q2	– 9.2	Sep	+66.5	Oct	–17.1	Aug	– 1.2	Aug	19.0	Sep
Czech Republic	+ 3.9	Q2	+ 1.1	Sep	+ 4.4	Oct	– 3.3	Sep	– 2.7	Q2	14.7	Oct
Hungary	+ 4.0	Q2	– 4.4	Sep	+ 7.6	Oct	– 2.1	Oct	– 1.1	Sep	11.8	Oct
Poland	+ 0.9	Q2	+ 1.4	Oct	+ 4.0	Oct	– 9.6	Sep	– 6.0	Sep	28.0	Oct
Russia	+ 5.1	Q2	+ 5.1	Oct	+18.9	Oct	+56.7	Sep	+44.6	Q2	34.0	Oct
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+10.2	Jun	+ 2.9	Oct	– 1.4	Aug	+ 0.3	2001†	2.2	Sep
Saudi Arabia	+ 4.5	2000§	na		– 0.5	Sep	+50.9	2000	+15.6	2000	17.2	Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Nov 22nd 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 21st		Dec 31st 2000	
	Nov 21st	year ago	Nov 21st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.7	na	1,779.6	+5.5	–18.8	–18.8
Hong Kong	7.80	7.80	11.0	2.02	11,173.9	+2.0	–26.0	–26.0
India	48.0	46.8	67.8	6.71	3,244.1	+4.2	–18.3	–20.5
Indonesia	10,440	9,405	14,754	17.92	382.1	+2.5	–8.2	–14.9
Malaysia	3.80	3.80	5.37	3.30	632.9	+3.3	–6.9	–6.9
Philippines	52.0	49.1	73.5	12.25	1,033.9	+3.6	–30.8	–33.5
Singapore	1.84	1.75	2.60	1.19	1,465.2	+7.2	–24.0	–28.2
South Korea	1,275	1,178	1,802	4.61	615.5	+1.4	+22.0	+21.0
Taiwan	34.4	32.8	48.6	2.60	4,533.4	+6.0	–4.4	–8.2
Thailand	44.4	43.7	62.7	2.75	291.2	+9.0	+8.2	+5.8
Argentina	1.00	1.00	1.41	58.20	205.3	–7.3	–50.8	–50.7
Brazil	2.53	1.93	3.58	19.05	12,793.8	–0.2	–18.0	–36.8
Chile	679	575	959	4.73*	5,504.3	+1.5	+13.0	–4.5
Colombia	2,318	2,135	3,276	11.58	917.0	+15.5	na	na
Mexico	9.14	9.40	12.9	7.81	5,674.4	–1.3	+0.4	+5.5
Peru	3.43	3.54	4.9	3.33	1,158.9	–0.1	–4.1	–1.5
Venezuela	745	696	1,053	15.17	6,294.3	–2.5	–7.4	–13.0
Egypt	4.26	3.79	6.03	8.11	5,100.6	–5.8	–33.4	–39.3
Israel	4.22	4.13	5.96	3.91	385.6	–0.4	–22.0	–25.3
South Africa	9.90	7.82	14.0	9.08	9,348.2	+1.8	+12.3	–14.1
Turkey	1,505,000	689,895	2,126,866	57.00	11,617.2	+9.2	+23.1	–45.2
Czech Republic	38.0	40.7	53.6	5.13	403.0	+0.8	–15.8	–16.5
Hungary	285	313	403	10.24	7,164.2	+0.3	–8.7	–9.7
Poland	4.09	4.58	5.78	14.79	14,232.1	–2.7	–20.3	–19.4
Russia	29.9	27.9	42.3	25.00	218.4†	–4.8	+59.2	+52.4
EMF (MSCI)‡	1.00	1.00	1.41	na	292.8**	+1.7	na	–12.3
EMBI+§	1.00	1.00	1.41	na	199.4	–1.2	na	–1.2

*Inflation adjusted. †In $ terms. ** Nov 20th ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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